REPORT

of the

MARYLAND COMMISSION

on the

DISTRIBUTION OF TAX REVENUES

1946

gift - March 14, 1947

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MARYLAND COMMISSION

on the

DISTRIBUTION OF TAX REVENUES

Appointed by

Honorable Herbert R. O'Conor, Governor of Maryland

JOSEPH SHERBOW, *Chairman*

J. KEMP BARTLETT, JR.
HERBERT M. BRUNE, JR.
RICHARD W. CASE
J. ALLAN COAD
ROBERT FRANCE
JOHN B. FUNK
OWEN E. HITCHINS
HOWARD W. JACKSON
W. CARROLL MEAD
JOHN McC. MOWBRAY
F. ROSS MYERS
REUBEN OPPENHEIMER
FREDERICK W. C. WEBB

Consultants:

V. O. KEY, JR., Johns Hopkins University

WM. PAUL WALKER, University of Maryland

A. E. BUCK AND PHILIP H. CORNICK, Institute of Public Administration

WM. CARSWELL BAXTER, Secretary

September 30, 1946

Sub-committee—Income Taxes, Highway User Taxes, Etc.

REUBEN OPPENHEIMER, *Chairman*
HERBERT M. BRUNE, JR.
J. ALLAN COAD
F. ROSS MYERS

Sub-committee—State Welfare Department, Education, Etc.

JOHN B. FUNK, *Chairman*
FREDERICK W. C. WEBB
HOWARD W. JACKSON
J. KEMP BARTLETT, JR.

Sub-committee—Property Tax, Race Tracks, Licenses, Specific Taxes, Etc.

OWEN E. HITCHINS, *Chairman*
RICHARD W. CASE
W. CARROLL MEAD
ROBERT FRANCE
JOHN McC. MOWBRAY

JOSEPH SHERBOW, *Chairman Ex-Officio*

Consultants:

V. O. KEY, JR.
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Secretary:

WM. CARSWELL BAXTER

Staff: CARL L. WANNEN, GEORGE E. GANNON, JR., JAMES W. ROUNTREE, JR. — Accountants
HENRY J. REHRMANN — Reporter

REPORT OF THE MARYLAND COMMISSION ON THE DISTRIBUTION OF TAX REVENUES.

September 30th, 1946

To the Honorable Herbert R. O'Conor,
Governor of Maryland.

Sir:

The report of this Commission appointed by you is respectfully transmitted herewith.

Additional studies are being made on the subject of "Exemptions," and related matters, and when completed will be forwarded in due course.

Respectfully submitted,

Joseph Sherbow,
Chairman.

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ACKNOWLEDGMENT.

The Commission wishes to express its appreciation of the services rendered by its staff and the cooperation and assistance received from all State Departments, from Dr. Horace E. Flack, Director of the Bureau of Legislative Reference, Messrs. C. C. Croggon and Wm. B. Tittsworth of Haskins and Sells, Mr. Herbert Fallin, Budget Director of Baltimore City, and the various State and City officials and employees who so generously assisted us in the preparation of this report.

BASIC CONSIDERATIONS.

The Commission has been asked "to determine proper State and local relationships with specific reference to the division of revenues". While our work has been specifically directed to the division of revenues between the State and the local political sub-divisions, we have necessarily had to consider the whole public financial situation in the State. The circumstances which led to the creation of this Commission are not unique to Maryland. On the contrary, other studies completed and in progress, have shown that the problems which Maryland and its political sub-divisions are facing exist throughout the country. The Federal Government, faced with the emergency of financing a war, has utilized its sovereign taxing authority to an extent unprecedented in United States history. While the national debt has reached a staggering total, the Federal Government has almost unlimited means of raising revenue, and its problem, at least so long as the national income is maintained, is primarily the extent to which its virtually unlimited powers of taxation shall be used. The State of Maryland, like many other states, is, at present, in a relatively more favorable financial position than is the Federal Government. Its debt is comparatively low. It has a wide range of sources of revenue and, during the war period, has been able to accumulate a substantial surplus while, at the same time, reducing its taxes. It is in some of the political sub-divisions, and particularly in the City of Baltimore, that the tax situation is acute and even desperate.

The responsibilities of the Commission have been dual in nature. In considering the present division of revenue between the State and its political sub-divisions, and in recommending changes therein, we have endeavored to weigh the relative fiscal strengths and needs both of the State and of the sub-divisions, but we have kept constantly in mind that the fiscal needs, responsibilities and resources of the entire State, irrespective of political demarcations, must also be regarded as a whole. No child in Maryland should be deprived of a proper education because he happens to live in a county in which the local tax resources are relatively limited. No needy person, no matter where he may live, should be deprived of necessary assistance if the resources of the entire State make the continuance of a system of relief practical. The wealthier portions of the State cannot expect that all the revenue which they contribute to the State budget should be returned to them, or expended solely on their behalf. They must bear their fair share of the financial responsibilities for the well-being of the entire State. But that share must be no more than a fair one.

The people of Maryland have always firmly believed in the values of local self-government. Within the State, the units of self-government are the counties and incorporated cities. In so far as practical, and subject to the welfare of the State as a whole, the people of the counties and cities should have the right to manage their own local affairs. No changes in fiscal relationship should undermine the integrity and strength of that principle. But the principle of local self-government, in taxation, as elsewhere, involves responsibilities as well as rights. Our political sub-divisions can each remain strong and relatively independent instruments of self-government only if those responsibilities are fairly met.

The 1932 Report of the Tax Survey Commission of Maryland stated that "the economic life of Maryland is an entirety; of that life Baltimore City is the heart center." Baltimore contributes the larger part of the total revenue of the State. It has, in addition, the financial problems inherent in the conduct of the affairs of a large industrial city. Its tax resources, compared with those of the State, are relatively limited. The State and Federal Governments have preempted almost all available methods of taxation. Like the counties, Baltimore City depends primarily on the real estate tax for raising its revenue. The report of the Committee on Additional Tax Revenue for the City of Baltimore, dated March 1st, 1945, stated that:

> "While real estate should bear a major part of the burden of local taxation, the present burden is high both in comparison with other cities and with respect to the

> benefits which real estate owners derive from city activities. . . . In our opinion, an undesirably heavy load of taxation now rests upon the owners of real estate and particularly upon the owners of small houses. If it is practical from the point of view of maintaining municipal services and properties, some reduction in the city tax rate should be effected."

Since that report was published, there has been a substantial increase in the Baltimore City tax rate. The studies of the Commission have convinced it that in almost every category of division of revenues between the State and its sub-divisions, the methods of allocation, under the present circumstances and the circumstances which are likely to exist in the near future, are unfair to Baltimore. This conviction, the reasons for which are explained in detail in the portions of the report which follow, has been reached only after taking into consideration the fact that, because of its resources, Baltimore must continue to bear a relatively greater proportion of the tax burden of the State than would otherwise be proper. In some cases of the division of revenue, Baltimore's plight is shared by one group of counties; in other cases, it is shared by other groups. In some instances, the treatment of Baltimore is only symptomatic of the treatment of all the political sub-divisions. But, almost without exception, where injustice or inequity has been found in any phase of State and local division of revenues, the City of Baltimore, either in conjunction with other political sub-divisions or alone, is in a position where, in the judgment of this Commission, relief should be granted.

While the Commission is recommending a number of fiscal changes, it has endeavored to alter the fundamental tax structure itself as little as possible. The matter of taxation is an exceedingly practical one. The tax system of Maryland is, in general, essentially sound; it has been improved substantially during the last twenty years. Inequities have been found to exist within the system which the Commission believes can be corrected, without altering the existing framework. Considered as a whole, the combination of local and

State taxes presents an intricate and varied pattern, but the varied nature of that pattern in itself is a source of strength. While studying plans and reports which have been made with respect to other states, we have predicated all our recommendations upon the general system which, as a whole, has been found suitable to Maryland. Furthermore, our approach has been that a strong burden rests upon those who advocate any change, even within the existing tax framework. Where good reason has seemed to exist for any phase of the present system, we have made no recommendation for change, even though equally strong arguments may have been advanced for revision. If our recommendations are adopted in their entirety, the existing tax structure in the State will remain fundamentally the same. We have, however, within the limits of practicality, kept in mind the desirability of simplification as well as more equitable division.

Maryland and its political sub-divisions, as well as the country as a whole, are in an era of rising costs. The expense of performing most governmental functions has increased substantially during recent years. Moreover, the State and its sub-divisions have taken on the performance of new functions and the extension of old ones. The cost of building a mile of new road is considerably greater than it was before or during the war. Salaries and wages have increased, and may increase still further. Within the last decade, Maryland, in conjunction with the Federal Government and the local sub-divisions, has undertaken a welfare program of considerable scope. Public education in the State is to be on a twelve year basis. The examples could be multiplied, but the basic fact is clear that the cost of local government to the State and the counties and cities is considerably greater than it has been, and will probably continue to rise. If the present era of prosperity should be followed by one of depression, the additional cost of relief must be met. All these factors lead to the conclusion that the cost of State and local government not only has increased, but also will continue to increase. The Commission believes that, while the local sub-divisions must bear their fair share of this increased cost, the State, with its greater resources and greater taxing powers, is in a far better position to raise the additional revenues which may be needed.

The increasing needs of at least some of the local subdivisions of the State and the probable increased future needs of the State itself cannot be met without a steady and inexorable determination to eliminate waste in every form of government, and to effectuate every economy which can fairly and properly be made. The study of possible economies in State and local governments has not been a part of this Commission's responsibilities. The Commission emphasizes, however, that the resolve to eliminate waste and effectuate economies goes to the heart of the successful operation of government, irrespective of what changes may otherwise be made. Only through such measures, carefully planned and vigorously carried out, can the tax burden of the State be kept within reasonable bounds.

In so far as is practical, the tax burdens within the State, other than on real property, should be uniform as to the base and the rate. Property taxes must necessarily differ as to rate within the different sub-divisions in accordance with their relative needs, the services rendered, economic conditions and abilities to pay. These local tax rate variations should not result in unduly heavy tax burdens in any locality. While some variation in rates cannot be avoided, it is essential that the assessed valuation, against which tax rates apply, be uniform. Need for this uniformity in assessment and the steps necessary to bring it about are discussed in another portion of this report. Other than for the property tax, however, and with the possible additional exception of minor excise taxes, it is the opinion of this Commission that the tax system within the State should, in so far as possible, be on the same basis with respect to the nature of the tax and the rates. Present divergences, in any event, should not be intensified. It is undesirable, equitably and economically, that tax advantages or disadvantages inhering in residence or in doing business anywhere within the State should be increased.

While, in general, the Commission has endeavored to adhere to certain general principles, which will appear in the discussion of particular taxes, it has not allowed logic to override practicality. In each case, it has taken into account the effect of its recommendation, not only as to the particular tax involved, but also on the State-wide system as a whole.

The recommendations of the Commission are not proffered as a complete or ultimate solution of the tax problems which will confront the State and its sub-divisions in the future. We cannot attempt to foresee future economic and social developments, which may demand drastic changes in both Federal and local plans of taxation. Moreover, even though it be assumed that present economic conditions may continue for a period of years, the Commission has been handicapped by the lack of any uniform system of accounting, the paucity of records, the variations in fiscal years, and the other difficulties referred to in another section of this report. If and when the changes which we recommend as to these conditions are effected, a more comprehensive view can be taken of the needs and resources of the different subdivisions, and the extent of the changes we recommend in various allocations may have to be reconsidered. But there is no one panacea for tax woes. The history of the various Commissions appointed by the State bears ample evidence to the continuing nature of the problem and to the need for constant study. The specific recommendations which this Commission makes, written in the light of the information which we have been able to obtain, are offered only to correct what have seemed to us clear inequities in the present situation. The extent of these recommendations has been set to meet what we believe to be the requirements of the near-term future. Beyond that, we can only trust that our suggestions contain certain principles and considerations which may serve some purpose in the solution of the new problems which the future will inevitably bring.

UNIFORM SYSTEM OF ACCOUNTING.

At the outset, the Commission felt it would be necessary to make a factual study on a comparative basis showing the receipts and expenditures of each political sub-division, county and city alike. We had an adequate base from which to start by utilizing one of the tables in the preliminary report of the Maryland State-wide Highway Planning Survey by the Maryland State Roads Commission for the year 1936.

By obtaining comparable data for 1940, 1944, and possibly 1945, we believed we would then have sufficient information from which some valid conclusions could be drawn. We wanted to find out to what extent in each county real estate bears the cost of government and to what extent receipts from other sources bear the cost of government. Has the ratio gone up or down? How does State aid compare with the burden imposed on local taxpayers? Has there been a disproportionate rise in State aid to certain counties by comparison to the utilization of their own tax resources? How do various counties compare with each other in proportion of State aid with local revenue? What material changes have taken place in the last decade in these categories?

The answers to these and many other questions were important. We therefore assigned a member of our accounting staff to the task of assembling these data for the use of the Commission.

After examining in detail the annual reports, where available, of most of the counties for the years under study, we reluctantly came to the conclusion that it was impracticable to prepare comparative statements for the years mentioned.

One major difficulty was the fact so many counties had different fiscal years. The following data shows the endings of the fiscal years of the various counties, City of Baltimore, State of Maryland, and Federal Government:

March 31	—	3 counties
May 31	—	2 counties
June 30	—	8 counties

June 30	—	State of Maryland
June 30	—	Federal Government
December 31	—	10 counties
December 31	—	Baltimore City

Although the receipts from real and personal property taxes could be obtained, there were different methods used by various counties in reporting receipts from other sources. Some counties reported receipts from their respective Boards of Education; others made no reference to this class of revenue. Generally, the reports available contained no information pertaining to State and welfare funds. In some counties the reports include as many as three county agencies reporting on *different* fiscal year bases.

The reports from the twenty-three counties clearly indicate a lack of uniformity in the reporting of the receipts, especially revenues derived from sources other than property taxes. We learned that five accountants worked about six months on a full-time basis to compile the data necessary for the 1936 report above referred to. It was readily apparent to us that the work of our Commission, even with the competent accountants at our disposal, would be held up for too long a period if we attempted to obtain this necessary information. In a few counties and Baltimore City all the data needed were readily available, comparable tables could easily be prepared, and much illuminating information was available. But without complete data from *all* the political sub-divisions the information could not be classified and compared.

For many years efforts have been made to secure a uniform system of accounting for the counties of Maryland. In 1938 a committee of the Maryland Association of Certified Public Accountants worked with a sub-committee on uniform accounting of the Maryland State Planning Commission. Had the recommendations then made and subsequently made by other commissions been carried into practice our Commission would have had all of the data needed. However, those recommendations were not carried out.

Part of the funds spent by the localities is furnished by the State or Federal Government, such as road, social security, and school funds. Some of these receipts are on a matching basis. Unnecessary difficulty and confusion is created by the existing variance in fiscal years. It would take months of full-time work by half a dozen accountants, repeating the work done in 1936, to secure comparable statistics from the twenty-three counties of the State, the incorporated towns and the special taxing districts or areas.

RECOMMENDATION.

We recommend that every political sub-division of the State of Maryland, county, city and incorporated town, alike, be required by State law to adopt a uniform system of accounts. A standardized, simplified form of accounting procedure has already been developed and is now in use in many places in the United States. With slight modifications this system can readily be adapted to use in Maryland.

The system of accounts must be uniform, allowing for ready comparison. It need not be complicated, but should be in sufficient detail to reveal readily necessary information. The counties themselves would find detailed budget information useful for their own officials as well as for taxpayers. Statements of receipts and expenditures would be prepared on a monthly basis and thus current data would be available to officials and taxpayers.

According to the latest information available in the library files of the Institute of Public Administration, eighteen states have prescribed standard accounting and reporting procedure for their county governments and have been successful in getting practically all of the counties to cooperate in the installation of this procedure. In many cases a uniform fiscal year is embodied in the accounting procedure. These states are Arizona, Idaho, Indiana, Iowa, Kentucky, Maine, Massachusetts, Montana, Nevada, New Hampshire, New Jersey, New Mexico, New York, Ohio, Virginia, Washington, West Virginia, and Wyoming.

Seven other states have prescribed standard accounting and reporting procedure for their county governments, but have succeeded in making installations in only part of the counties. These states are Alabama, Colorado, Kansas, Oklahoma, Oregon, Texas, and Wisconsin.

We recommend that all of the counties, incorporated towns, cities and taxing districts should be required by State law to adopt either the calendar year or July 1st to June 30th as their fiscal year. They should further be required to keep their records and accounts so that, as of January 1st and July 1st, the records would be so prepared and developed that comparison with every other political sub-division of the State could readily be made.

The State of Maryland and the Federal Government use the July 1 to June 30 fiscal year. While it might be better from many points of view to have a uniform fiscal year for the federal, state and local governments, yet the end results would be satisfactory if either January 1st or July 1st were used, but, and this is most important, *the data and statistics must be so divided into half-yearly periods as to permit of ready comparison.*

We recommend that the General Assembly pass legislation creating a Commission to consist of the Comptroller or his Chief Deputy, the State Auditor or his Chief Deputy, the Director of Budget and Procurement of Maryland, the Budget Director of Baltimore City, two nominees of the Maryland Association of Certified Public Accountants, and three persons selected by the Governor from a list nominated by the County Commissioners.

This proposed Commission would set up the Uniform System of Accounts, prescribe its form and detail, and would continuously aid and consult with local officials in carrying out the Commission's rules. Its promulgations would be binding on the local political sub-divisions.

The law should provide that State grants be withheld from any local unit which failed to follow the prescribed system of accounts.

IMPROVEMENT IN STATE BUDGET PROCEDURE.

The 1916 budget amendment to the Maryland Constitution provides that the Governor shall submit the State budget to the Legislature twenty days (thirty days following his inauguration in the case of an incoming Governor) after the Legislature convenes on the first Wednesday in January of the odd-numbered years. Since the Legislature meets regularly in biennial sessions, the State budget must cover a period of two years starting with the opening of the fiscal year on July 1. This means that the budget estimating must be done more than six months before the date when the budget actually becomes operative. Inasmuch as this estimating covers a biennium, it really anticipates what the State government is going to spend and how much revenue it is going to have for an advanced period of over thirty months.

Under present-day conditions, this is much too long to permit accurate estimates to be made for the financing of a state government. It is difficult enough to strike anything like a balance between income and outgo for the operations of the State government alone; but with Federal aid in varying amounts coming to the State and with State aid and shared taxes going to the localities, the difficulties of estimating over a two-year period are greatly increased. Hence it becomes advantageous to do the budget estimating annually, and to make the estimates as near as possible to the opening of the fiscal period to which they apply. Incidentally, the success of any scheme of distribution of State aid and shared taxes to localities depends in no small measure upon the accuracy of estimating requirements and receipts, which in turn depends upon uniform fiscal periods and comparable accounting and reporting methods as between the State and local units.

The State government has an adequate and experienced budget staff, yet greatly improved estimating can be attained by putting the State budget on an annual instead of a biennial basis and by moving the time for submitting the budget to the Legislature nearer to the opening of the fiscal year. The increasing necessity of budgeting with the greatest possible accuracy would seem to make annual sessions of the Legislature indispensable. Once a year is certainly not too often in these days for a state government to review its financial plan and to vote its budget. Many states with biennial legislative sessions now find it necessary to call special sessions in between to handle financial and other urgent matters, and Maryland has been no exception in recent years. A few years ago Massachusetts changed from annual to biennial sessions for its Legislature, but recently changed back again to annual sessions, mainly because of the difficulty of budgeting satisfactorily for the longer period.

Maryland has improved its budget situation by moving the beginning of its fiscal year back from October 1st to July 1st. This arrangement has the advantage of coinciding with the Federal fiscal year, and is now uniform with the fiscal years of most other state governments. But it still leaves a considerable gap between the close of the legislative session and the beginning of the budget period. Under rapidly changing economic conditions, annual sessions are most desirable.

We believe that Maryland can greatly improve its budget system by putting it on an annual basis and by moving the time for submission of the budget to the Legislature forward several months. These changes would, of course, necessitate some constitutional amendments, including provision for annual sessions of the General Assembly. Since members of the Legislature are now paid an annual salary instead of being on a per diem basis, much of the opposition to annual sessions should end.

There should be two types of legislative sessions. In the odd-numbered years the Legislature could meet as at present in January or April and run for the accustomed ninety days. There are some who hold the view that the ninety-day limitation for the sessions should be removed, thus allowing the

General Assembly to remain in session so long as the public interest may require. We make no recommendation on this phase of the matter.

If the Legislature met in January for the long session, it should recess after three or four weeks to meet again after April 1, at which time it would receive the budget from the Governor. This arrangement would permit the State budget to be prepared within the early part of each calendar year and much nearer the opening of the fiscal year to which it would apply. All estimating would then be done close to the beginning of the budget year and would not extend over a future period of more than fifteen months. Not only would the period covered by the estimates be substantially shortened, as compared with the existing practice, but also the accuracy of estimating for the shorter period will be tremendously improved.

In even-numbered years the Legislature would meet at the call of the Governor not later than a specific date, which we suggest as March 1, and should adjourn not later than May 15. The General Assembly would be required to act on the budget at least sixty days before the budgetary period begins, that is by May 1, which would give ample time for the preparation of the State Fiscal Digest.

Furthermore, a new Governor would be given ample time, which he does not now have, to study his budget proposals before submitting them to the Legislature. This is very important from the standpoint of good budgeting, since the Governor sets the fiscal pattern for the Legislature to follow under the limitations placed on legislative action by the budget amendment of 1916.

The long range estimates, which are often inaccurate, would be more realistic, and the need for budget amendments, so frequently made would be lessened and perhaps eliminated.

Recommendations.

We recommend the submission to the voters of Maryland of Constitutional amendments embodying these proposals.

FISCAL RESEARCH BUREAU.

Much information has been accumulated by this Commission in the course of its studies. Charts, tables, data and statistics have been secured by our staff, but are not included in this published report. They furnish the basis for many conclusions, but would unduly increase the length of this document if they were included herein. Other commissions making studies of various phases of State government, upon the conclusion of their work, find themselves similarly situated with a mass of accumulated information and no place to file it.

Nearly every State department publishes an annual report. Many of these reports overlap and contain the same statistical information. Some are expertly prepared but lack a complete index, making it difficult to find the information sought. These reports are usually available to the general public at the departmental offices and copies are filed with the Bureau of Legislative Reference and sometimes with the State Library at Annapolis.

When the recommendations for uniform accounts and fiscal periods have been in effect for several years, much necessary and pertinent information would then become available. It should not be necessary to await the appointment of a Commission to study a particular problem. This data and information should be currently available to the Governor, the various State Departments, the Legislative Council, and the public.

Such a Bureau would also make a study of the problems arising from charges made by one State agency for collections of taxes or license fees on behalf of the State or a political sub-division. Chapter 753 of the Acts of 1945 provides an allowance to the Department of Motor Vehicles of a collection fee of 1½% of all taxes collected by it. No payment is made by the State to the counties or Baltimore City for their collection of the State property tax. Clerks of court are allowed to make varying charges for certain collections made by them. The entire subject needs careful study and review after all the facts are ascertained.

Recommendation.

We recommend that the State create a Fiscal Research Bureau within the State Tax Commission. This Bureau should have at its head a competent official, having a research background, and capable of making studies and recommendations.

It would be the function of this Bureau:

a. To collect, tabulate, and publish comprehensive data on the revenues and expenditures of local sub-divisions of the State;

b. To conduct such special investigations into the operations of tax legislation as the Governor, Legislative Council, or General Assembly may direct;

c. To make continuing studies of State-local fiscal relationships;

d. To serve, on request of the Governor, as staff to any special commission designated by the Governor to make inquiries into taxation and related matters;

e. To make such other special studies and investigations as the State Tax Commission shall direct.

Such a bureau doing this work within its field could find no better example to follow than that of the Bureau of Legislative Reference, under the most able leadership of Doctor Horace E. Flack. If, in its field, it did its job as well as Doctor Flack's Bureau in its much broader field, the State of Maryland would be well repaid for its outlay.

THE STATE INCOME TAX.

Under the present Maryland Income Tax Law, Baltimore City and the counties each receive one-fourth of the tax collected from the individuals residing in their respective jurisdictions, with a further allocation, as to the counties, of an equal division between the counties and their respective incorporated towns and cities. We have considered this division from two aspects: First, its adequacy as a replacement of the funds which the sub-divisions formerly received from the intangible personal property tax, and, second, the broader aspect of the place which the revenue from State income taxes should have in State and local revenues.

History Of The State Income Tax.

While income taxes were resorted to in Maryland from 1777 to 1779, and again in the period from 1840 to 1850, no general income tax was levied in Maryland from 1850 to 1937. The 1937 tax was a flat tax at the rate of ½ of 1%. The Income Tax Law was amended in 1939 as a result of a careful study made by a Commission appointed in 1938. The 1939 Act with minor amendments, constitutes the framework of the present law.

Unlike the Federal Income Tax Law, the Maryland tax is not graduated or progressive. It does, however, impose one rate on ordinary income and another rate on investment income. While the tax is not graduated, by reason of the different rates it imposes on ordinary and investment income, and because of its relatively large exemptions, it does have a somewhat progressive effect. The present exemptions include $2,000.00 for a married person living with husband or wife and $400.00 for each dependent. A person who derives his entire income in the form of wages, with a wife and two children, therefore, has to earn over $2,800.00 a year before paying any State income tax, and, after his earnings reach that sum he pays a tax at a rate of less than half of the rate imposed upon investment income.

The original rates fixed by the 1939 Act were 6% on investment income, 2½% on ordinary income and 1½% on corporate income. In 1941, the General Assembly reduced the rates on individual income to 5% and 2%, retaining the 1½% on corporate income. The statutory rates have remained at these figures, but they have been reduced by provisions in various legislative acts to the effect that credits be allowed for a particular year against the total tax payable by individuals, and by further credits allowed by the Board of Public Works under authority delegated to it by the Legislature.

The effective rates on individual income since 1939 are set forth below; the income year refers to the year when the income was earned and against which the tax rate was effective:

	Tax Rate Applicable to:	
Year	*Investment Income*	*Ordinary Income*
1945	2½%	1%
1944	3⅓%	1⅓%
1943	2½%	1%
1942	3⅓%	1⅓%
1941	5%	2%
1940	5%	2%
1939	6%	2½%

In each year, the political sub-divisions received one-quarter of the total amount raised from the State income tax on the resident individual incomes at the varying rates above given. The State retained the other three-quarters, as well as the entire income tax paid by corporations, fiduciaries and non-residents.

Importance Of The Income Tax To The State.

The receipts by the State of Maryland from income taxes constitute one of its most important sources of revenue. For the fiscal year 1945, those taxes constituted the largest single source of revenue, being 20.97% of the total tax receipts (including the share of the sub-divisions; see Graph A, showing State of Maryland cash receipts for the fiscal year 1945. If the highway user taxes are considered together, their aggregate exceeds the income tax receipts).

The total income tax receipts for the fiscal years from 1940 through 1946, as reported by the Comptroller of the Treasury, were as follows:

Fiscal Year Ended		*Total*
June 30, 1946	—	$ 9,955,165.59
June 30, 1945	—	11,063,040.00
June 30, 1944	—	9,586,263.39
June 30, 1943	—	8,442,110.50
September 30, 1942	—	10,494,004.17
September 30, 1941	—	6,977,870.49
September 30, 1940	—	7,648,151.20

These figures include the share of the sub-divisions and are before certain refunds. The total figure for each fiscal year includes some returns for prior years. They show, however, the large amounts which the income tax has been producing since the 1939 Act was passed.

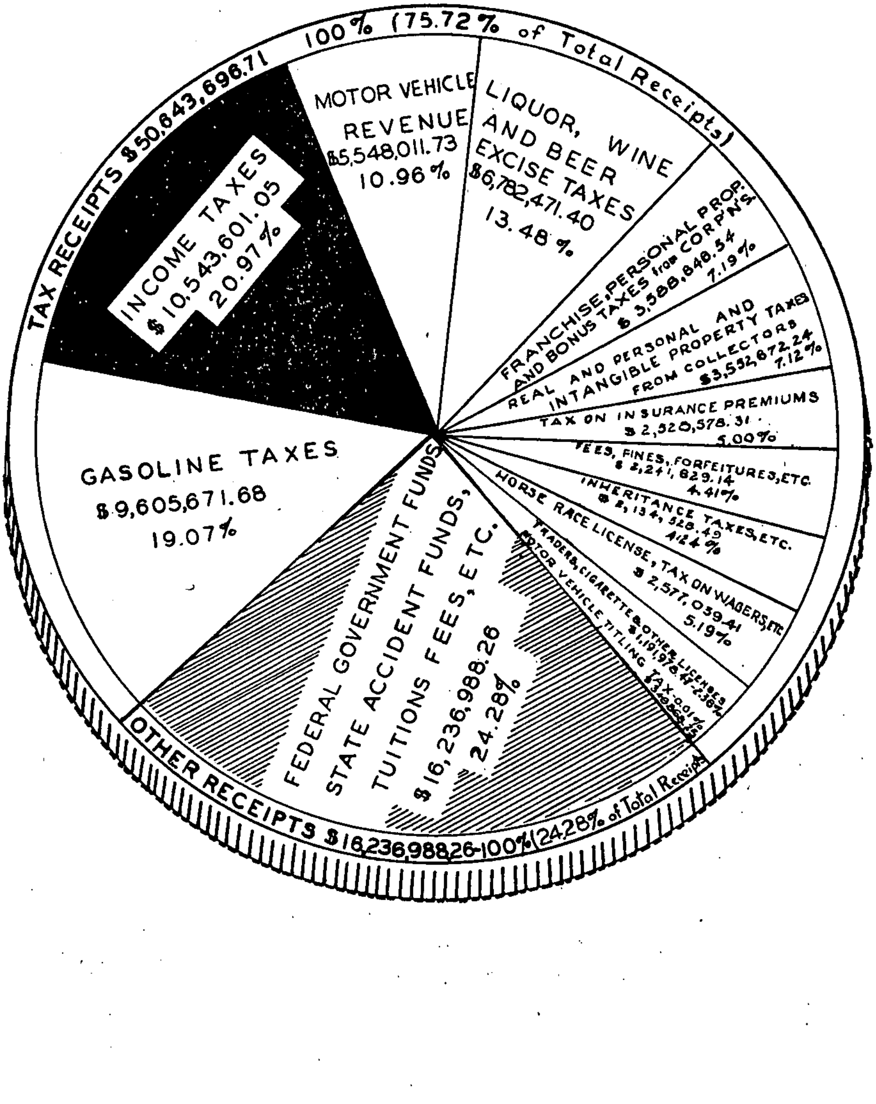
The revenue produced by income taxes, State as well as Federal, varies greatly with changing economic conditions. As the above data show, during the war years, the State, at rates ranging from one-half to two-thirds of the 5% and 2%, has been receiving more revenue from this source than it did at the full 5% and 2% rates in the years immediately prior to the war.

If and when the tide of economic prosperity recedes, a substantial decrease in the amount of revenue produced by each 1% of tax may be expected. It is recognized that a state income tax is a much less stable source of revenue than such taxes as real estate and gasoline taxes. Yet, despite these inevitable uncertainties, it may be anticipated that the State must and will continue to receive a substantial portion of its revenue from the income tax in bad times as well as good.

Graph A

TOTAL NET CASH RECEIPTS
FOR FISCAL YEAR JUNE 1945

TOTAL TAX RECEIPTS $50,643,696.71
OTHER RECEIPTS 16,236,988.26
TOTAL NET RECEIPTS $66,880,684.97



The rates of taxation may change, but the dependence of the State upon this source of revenue seems to be fixed.

There is one other important feature of the State income tax; the amount so paid is a deductible item from the Federal income tax. While the Federal income taxes are now so high that any additional tax of a similar nature is an added burden, it is nevertheless true that whatever amount is paid the State of Maryland for its own income tax generally reduces the Federal income tax of the taxpayer by a substantial portion of the amount paid the State.

Importance Of The Income Tax To The Localities—As A Substitute For Their Share Of The Intangible Personal Property Tax.

The 1939 income tax replaced the old intangible personal property tax. That tax was at the rate of 4½ mills; its proceeds were divided two-thirds to the locality and one-third to the State. When that Act was repealed, it was recognized, and it still is recognized, that such a tax is unfair and its administration difficult and to a great extent ineffective. The reintroduction of the intangible personal property tax has never been seriously considered since its repeal, and this Commission would be opposed to its revival. It is important, however, in connection with this discussion, that it be kept clearly in mind that the distribution to local governments from the State income tax was intended to replace the revenue which they received from the intangible personal property tax.

The Report of the 1939 State Commission on Taxation and Revenue stated, in connection with the income tax which it proposed, that:

> "From figures and statistics we have compiled we believe that the 4½ mills tax in its practical effect has been unfair to the taxpayer who was properly assessed and has benefited unduly many taxpayers who were never properly assessed. The proposed plan will take away the present advantage in establishing fictitious or colorable residence as between local political sub-divisions, and will result in no loss of revenue to them."

The income tax which that Commission was proposing was at the 6% and 2½% rates, subsequently embodied in the 1939 Act, from the proceeds of which the sub-divisions received one-quarter of the amount raised on the individual income of their residents. It was clearly intended that the localities should suffer no loss of revenue from the substitution of the income tax for the intangible personal property tax.

The Maryland Tax Revision Commission of 1939, in its Report made in 1941, after the income tax law had been in effect over a year, considered the effect of the changes on local distribution, with particular reference to Baltimore City. That Commission said:

> "In view of the magnitude of the problem as to the City of Baltimore it seems desirable to consider its experience with the intangibles tax for each of the five years from 1935 through 1939. Assuming a 100% collection of the tax as assessed (which in the case of the City gives an approximately correct result) the City's share of the intangibles tax was as follows:

1935	$1,088,386
1936	1,085,075
1937	1,263,615
1938	1,465,280
1939	1,244,286
5 year average	$1,229,328

> "As against this the City's share of collections from the income tax through September 30, 1940 was $926,990, or $317,296 less than the intangibles tax for 1939 and $302,338 less than the five year average."

That Commission also recommended reduction in the income tax rates to 5% and 2%. It recognized that this proposed reduction "will result in a further loss of revenue to the City of Baltimore of approximately $225,000.00 in addition to the loss already sustained by the City." Partially at least to make good the loss to Baltimore, that Commission recommended the reinstatement of the tax on certain intangible securities of the Baltimore & Ohio Railroad, the allocation to the City of the proceeds of certain State licenses, and other minor adjustments. Some of these changes, such as the change as to auctioneers' licenses, merely provided the same treatment for the City of Baltimore that was already accorded to most of the counties. In 1944, as a result of the adoption of the 1939 Commission's recommendations, the City received approximately $219,000.00 from the Baltimore & Ohio intangible personal property tax, and about $27,500.00 from the licenses of auctioneers, junk dealers and pawn brokers.

Even with these adjustments, however, this Commission, as a result of its studies, is convinced that some of the localities, and in particular the City of Baltimore, are receiving far less from their share of the State income tax than they would have been receiving from their share of the intangible personal property tax, if that tax had been retained. We are strongly of the opinion that the substitution, at least in so far as the City of Baltimore is concerned, has resulted in substantial injustice which should be corrected.

It is difficult to compare the amounts which Baltimore and the other sub-divisions are now receiving as their respective shares of the income tax receipts with the amounts they would have been receiving under present conditions if the old intangible personal property tax had been retained. Baltimore's share of the intangible tax in the year 1931 was $1,723,203.58. This amount, which included the proceeds of the tax on certain securities of the Baltimore & Ohio Railroad, represented the highest collections from this tax made by the City. Baltimore's share of the intangible personal property tax for the year 1939, the last year for which that tax was in effect, was $1,165,690.35, excluding the proceeds of the tax from the B. & O. securities. Baltimore's share of the income tax receipts for the fiscal year ended June 30th, 1946, which does not include the tax on the B. & O. securities, was $928,662.99.

These figures, however, are by no means conclusive, for conditions have changed drastically since the intangible personal property tax was repealed, and almost all these changes point strongly to the conclusion that, if the tax had been retained, it would have been producing far more revenue for Baltimore than the City is now receiving as its share of the income tax.

There is no way of ascertaining what securities the individuals who would be subject to the tax are holding at the present time. However, since October 1, 1938, which was the basis used for 1939 for the securities owned by residents of Baltimore City, despite recent fluctuations, there has been a great increase in the value of securities as a whole. The Dow-Jones Composite Stock Average on July 1, 1938 was 45.02 and on July 1, 1946 was 77.03, an increase of over 71%. (As of September 16, 1946, the Composite Average was 63.74). While these figures do not reflect changes in the values of bonds, we are informed that the percentage of bonds in the 1939 intangible personal property tax assessment was small.

Moreover, some securities which did not pay dividends or interest prior to 1939 and, therefore, were not subject to assessment, would now be subject to the tax. The holdings of Government bonds, which increased so largely during the war, would not be subject to the tax, but, in substantial measure, these have been purchased out of new savings. Changes in population which have occurred since 1939 would have to be taken into account. In some of the counties, there has been a great increase in the number of residents which, at least in the case of the counties contiguous to the District of Columbia, is by no means a temporary incidence of the war. The population of Baltimore is estimated to have increased approximately 10% since 1939; a substantial proportion of this increase is believed to be permanent.

While it is impossible accurately to calculate the loss which Baltimore has sustained by reason of the change in tax, this Commission, as a result of its study, is of the opinion that, even after giving effect to the adjustments made as a result of the 1939 Commission's Report, if the 50% reduction in the 5% and 2% tax rates is continued, the yearly loss to Baltimore is at least approximately $1,000,000.00 and might well be substantially over that amount.

Whether the other sub-divisions of the State are sustaining similar proportionate losses is questionable, chiefly for the reason that it is doubtful if the counties under the old intangible personal property tax were assessing the securities of their residents to the same extent as was Baltimore City. The Commission's studies indicate, however, that at least some of the counties may, like Baltimore, be sustaining losses as a result of the change in the State system of taxation from the intangible personal property tax to the State income tax.

Importance Of The Income Tax To The Localities—From The Standpoint Of Stability.

There is one aspect of the present State income tax system which, in the opinion of the Commission, works a substantial hardship upon all the counties and the City of Baltimore alike. From year to year, the State, through the General Assembly or through the delegated authority of the Board of Public Works, reduced the rates of the State income tax, thereby automatically reducing the share of the tax which goes to the localities. These reductions are made solely in the discretion of the State authorities. As experience since the 1939 income tax was adopted has shown, there is no relation between the needs of the State and the needs of the sub-divisions with respect to this source of revenue. The State may be affluent and building up a surplus at the very time when the localities are hard pressed for funds and facing deficits. These have been the circumstances during recent years.

It has been pointed out that the income tax is necessarily an unstable source of revenue because drastic changes in economic conditions may effect the incomes on which the tax is levied. The way in which the State income tax has been administered and changed has added a second element of instability, in so far as the localities are concerned, which adds substantially to the other uncertainties and difficulties which the local sub-divisions face. No criticism of the State in reducing its taxes is here involved. It is fortunate that Maryland has been able to reduce its taxes while, at the same time, building up a surplus, but, as has been pointed out, the situation in the localities and particularly in Baltimore has been the exact converse. Faced with increasing needs, growth in population, higher costs and limited sources of revenue, Baltimore has been forced to increase its property tax rate during the very years when the State, because of its different circumstances, has been able to reduce both its property tax rate and the rates of its income tax. In the years in which additional revenue from its share of the State income tax has been essential, Baltimore, without its consent, has been deprived of from one-third to one-half of what its share of the income tax would otherwise have been. Some of the counties have been in the same relative position. All of the localities have been faced with an involuntary loss of revenue, and with a fundamental uncertainty in their own finances, which they have no means of resolving.

We do not believe that such a result was intended when the income tax was adopted. The intangible personal property tax, for which it was substituted, with all its defects, at least had a fixed rate with a fixed participation by the localities, which did not change. The 1938 Commission, in recommending the substitution of the income tax at the original rates of 6% and 2½% for the intangible personal property tax, was careful to consider the effect of the change upon the finances of the localities, and to point out that, in the opinion of that Commission, the localities would suffer no loss thereby. The 1939 Commission, in recommending the reduction of the rates to 5% and 2%, carefully considered the effect of the reduction upon the share of the revenue to be received by the localities, and, in the case of Baltimore, made a number of recommendations both to compensate it for the loss caused by the reduction and for the loss which, contrary to the expectations of the 1938 Commission, had resulted to Baltimore by reason of the change in the system itself. Neither Commission, so far as their reports evidence, considered the possibility of further reduction in the State rates, nor the effect of such reduction upon the revenues of the localities. In the opinion of this Commission, the subsequent reductions in the rates of the State income tax, even though proper from the point of view of the State, in so far as the localities are concerned, have been injurious.

Importance Of The Income Tax To The Localities—As A General Source Of Revenue.

The discussion of the State income tax to this point has been mainly from the point of view of comparing the present tax with the intangible personal property tax, for which it was substituted, and the effect of that substitution upon the localities. The Commission is of the opinion, however, that the matter has a broader aspect, and that any discussion of the problems involved which is confined to the effect of the substitution would be shortsighted and ineffective. One of the basic facts which gave rise to the appointment of this Commission is the desperate financial plight in which some localities, and particularly the City of Baltimore, find themselves. For such localities, the need for greater revenue is apparent. While their own legal power to enlarge the sources of their revenue is in general limited to the point of ineffectiveness, the property tax, which is and must remain the backbone of local revenue has, in the case of Baltimore, been increased to a point where, whether by comparison with other cities or from the standpoint of the residents of Baltimore alone, it is unduly high and burdensome. The economic problems of Baltimore as well as of the counties are the economic problems of the State as a whole.

The State income tax is far more closely connected economically with the residence of the taxpayer than are other taxes which have been considered. It is, for example, impossible to ascertain where gasoline purchased anywhere in the State is used. A truck or automobile owned by a resident of Baltimore City may be used, for the most part, outside of the City limits. The State income tax, on the other hand, is more closely related to the residence of the taxpayer. Most of the revenue raised by that tax comes from ordinary income. For the calendar year 1939 (paid in the fiscal year ended September 30th, 1940), before tax credit on deductions and personal exemption, the tax on ordinary income was approximately $7,600,000.00, while the tax on investment income was approximately $3,725,000.00, or about half as much. For the year 1944, the total tax at the rates of 3⅓% on investment income and 1⅓% on ordinary income was almost $8,000,000.00, of which over 75%, or approximately $6,000,000.00, came from ordinary income (see Table No. 1—Statement of 1944 income tax showing breakdown between ordinary and investment income). The ability to pay the tax, at least on ordinary income, arises in part from the facilities offered by the State as a whole, but also arises in large part from the particular situations and facilities of the local sub-divisions in which the taxpayers live.

Beyond this factor, however, is the urgent need of Baltimore City and some of the counties for income in addition to that produced by the tax on property and other existing sources of revenue. A greater and more stable participation for the localities in the revenue produced by the State income tax will, in the opinion of the Commission, be a substantial step in meeting that need. It is further the opinion of the Commission that such a step can be taken without interfering with the financial stability of State revenues.

Recommendation.

For the reasons set forth in the preceding discussion, the Commission recommends that a change be made in the present method of distribution of the revenue raised by the State income tax as between the State and the political sub-divisions. We recommend that the change be made by giving to all the political sub-divisions uniformly a limited first call on the income tax paid by their individual residents to the State, expressed in terms of percentage of income rather than as now percentage of tax. We further recommend that this first call on the income tax for the benefit of the locali-

State Tax Collected from Ordinary and Investment Incomes of Individuals, 1944, and Apportionment of same to the Counties and Baltimore City.

Table No. 1

Governmental Unit[1]	STATE TAX COLLECTED ON— Ordinary Income	Investment Income	Total Income	APPORTIONMENT OF TAX TO COUNTIES AND BALTIMORE CITY FROM Ordinary Income	Investment Income	Total Income
Allegany County	$ 110,584.36	$ 26,894.64	$ 137,479.00	$ 27,646.09	$ 6,723.66	$ 34,369.75
Anne Arundel County	152,502.79	36,757.58	189,260.37	38,125.69	9,189.39	47,315.08
Baltimore County	758,445.82	280,403.65	1,038,849.47	189,611.46	70,100.91	259,712.37
Calvert County	7,626.90	1,673.05	9,299.95	1,906.73	418.26	2,324.99
Caroline County	18,006.18	4,304.19	22,310.37	4,501.54	1,076.04	5,577.58
Carroll County	43,351.78	13,140.87	56,492.65	10,837.94	3,285.21	14,123.15
Cecil County	43,579.22	38,051.83	81,631.05	10,894.80	9,512.96	20,407.76
Charles County	22,697.60	3,493.87	26,191.47	5,674.40	873.47	6,547.87
Dorchester County	32,365.77	13,497.39	45,863.16	8,091.44	3,374.35	11,465.79
Frederick County	69,680.27	23,909.75	93,590.02	17,420.07	5,977.44	23,397.51
Garrett County	6,831.79	2,568.71	9,400.50	1,707.95	642.18	2,350.13
Harford County	75,047.18	20,547.12	95,594.30	18,761.80	5,136.78	23,898.58
Howard County	30,757.83	17,420.56	48,178.39	7,689.46	4,355.14	12,044.60
Kent County	11,330.01	9,776.42	21,106.43	2,832.50	2,444.11	5,276.61
Montgomery County	605,060.23	164,492.90	769,553.13	151,265.05	41,123.23	192,388.28
Prince George's County	239,101.12	37,254.02	276,355.14	59,775.28	9,313.51	69,088.79
Queen Anne County	12,391.78	34,382.09	46,773.87	3,097.95	8,595.52	11,693.47
St. Mary's County	10,357.98	4,574.75	14,932.73	2,589.50	1,143.69	3,733.19
Somerset County	14,860.28	4,702.01	19,562.29	3,715.07	1,175.50	4,890.57
Talbot County	26,030.41	31,174.17	57,204.58	6,507.60	7,793.54	14,301.14
Washington County	149,475.77	46,072.18	195,547.95	37,368.94	11,518.05	48,886.99
Wicomico County	49,101.27	14,117.21	63,218.48	12,275.32	3,529.30	15,804.62
Worcester County	30,799.61	4,983.89	35,783.50	7,699.91	1,245.97	8,945.88
Total Counties	$ 2,519,985.95	$ 834,192.85	$ 3,354,178.80	$ 629,996.49	$ 208,548.21	$ 838,544.70
Baltimore City	3,461,071.87	1,142,097.77	4,603,169.64	865,267.96	285,524.44	1,150,792.40
Grand Total	$ 5,981,057.82	$ 1,976,290.62	$ 7,957,348.44	$ 1,495,264.45	$ 494,072.65	$ 1,989,337.10

SUMMARY OF APPORTIONMENT

	Ordinary	Investment	Total
Total Tax	$ 5,981,057.82	$ 1,976,290.62	$ 7,957,348.44
Shared with Counties and City of Baltimore	1,495,264.45	494,072.65	1,989,337.10
Retained by State	$ 4,485,793.37	$ 1,482,217.97	$ 5,968,011.34

[1] Share of towns included.

ties, expressed in terms of percentage of income, be fixed at a rate which will produce for the localities substantially more revenue from this source than they are now receiving. This rate of income to go to the localities should, in our opinion, be fixed for the near term future at 1½% of investment income, and .625% of ordinary income. This percentage of the income of the residents of the localities raised by the income tax should each year be returned to them without being subject to reduction by the General Assembly or the Board of Public Works. Above these amounts so to be returned to the localities, the State could increase or decrease the rates of the income tax solely from the point of view of State needs; all of the funds so raised by the State income tax above the funds to be returned to the localities would go into the State Treasury without allocation to or division with the localities.

The suggested change in the present system of distribution of income tax revenue would entirely eliminate that element of instability in the financial affairs of the localities which has come about in recent years by reason of the automatic and involuntary reductions in the share of the localities caused by a decrease in the overall income tax rates. It would, moreover, make good to the localities the loss which some of them, particularly Baltimore, have suffered by reason of the substitution of the income tax for the intangible personal property tax. Furthermore, it would give effect to the principle which the Commission believes should control in the distribution of the income tax revenues—that where the revenue is paid in by the individual residents of the locality for the joint benefit of the locality and the State, the subdivision should have first call, to a limited extent, upon a fair share of that revenue, upon which it can count as a part of its general funds. No change is recommended as to the tax on corporate, fiduciary, and non-resident incomes, all of which goes to the State.

The percentage of income which, under our recommendation, would be retained by the localities has been set at the actual percentage of income which was returned to the localities under the 1939 Act. While, in the opinion of the Commission, the restoration of the loss to the localities caused by the substitution of the income tax for the intangible personal property tax is only one of the elements to be considered in arriving at a fair division of the proceeds of the income tax, the rate suggested has a clear historical precedent. It would, moreover, under present circumstances, take into account the other objectives which the Commission believes should be achieved.

Two examples will illustrate the application of our recommendation. If the recommendation had been in effect during the year 1940 with respect to the 1939 incomes, there would have been no change whatsoever in the rates of the tax, the total amount of the revenue collected, or in the method of the distribution between the State and the localities. The recommendation is to go back to the 1939 figures, in so far as the localities are concerned, with the added provision that the share of the incomes of their residents which the localities received for 1939 should be fixed for the near term future, and during that period should not be subject to change by the General Assembly or the Board of Public Works. Applying the recommendation to the 1944 income (taxable in 1945), the counties, cities, incorporated towns and Baltimore City, instead of receiving a total of approximately $2,000,000.00 from this source, would have received a total of approximately $3,700,000.00 (see Table No. 2). For that year, the State retained from the income tax on residents approximately $6,000,000.00. To have realized that amount for State purposes after giving effect to the Commission's recommendation, the additional amount of $1,700,000.00 would have had to be raised by increasing the rate of the income tax as a whole for that year. That, however, was a year in which the statutory rates of 5% and 2% were decreased. Even if the Commission's recommendation had been effective for that year, the State would have received the same amount of revenue which it retained by total income tax rates slightly less than 5% and 2%.

Table No. 2

Summary of Proposed Apportionment of Maryland Income Tax to Political Subdivisions based on Incomes reported in 1944 Resident Individual Returns.

	Ordinary Income Tax @ .625%	Investment Income Tax @ 1.5%	Total
Baltimore City	$ 1,622,377.44	$ 513,944.00	$ 2,136,321.44
Counties and Towns:			
Allegany	51,836.42	12,102.59	63,939.01
Anne Arundel	71,485.69	16,540.91	88,026.60
Baltimore	355,521.48	126,181.64	481,703.12
Calvert	3,575.11	752.87	4,327.98
Caroline	8,440.40	1,936.89	10,377.29
Carroll	20,321.15	5,913.39	26,234.54
Cecil	20,427.76	17,123.32	37,551.08
Charles	10,639.50	1,572.24	12,211.74
Dorchester	15,171.46	6,073.83	21,245.29
Frederick	32,662.63	10,759.39	43,422.02
Garrett	3,202.41	1,155.92	4,358.33
Harford	35,178.36	9,246.20	44,424.56
Howard	14,417.73	7,839.25	22,256.98
Kent	5,310.94	4,399.39	9,710.33
Montgomery	283,621.98	74,021.81	357,643.79
Prince George's	112,078.65	16,764.31	128,842.96
Queen Anne's	5,808.65	15,471.94	21,280.59
St. Mary's	4,855.30	2,058.64	6,913.94
Somerset	6,965.76	2,115.90	9,081.66
Talbot	12,201.75	14,028.38	26,230.13
Washington	70,066.77	20,732.48	90,799.25
Wicomico	23,016.22	6,352.74	29,368.96
Worcester	14,437.31	2,242.75	16,680.06
Total	$ 2,803,620.87	$ 889,330.78	$ 3,692,951.65

The advantages to the localities which would arise if the Commission's recommendations were adopted are clear. What, however, would be the result upon State finances? No change in the fiscal pattern should be made which, however advantageous to the localities, would weaken the State's financial stability or act as a practical limitation upon powers, the full exercise of which may in the future be required. One result of the recommendation would be that the State would not be able to grant reductions in the income tax rates to the extent to which it has granted them during the war years. But it has already been pointed out that these reductions, while in accord with the prosperous condition of the State Treasury, were made at a time when some localities were struggling with deficits. Some of the money which the residents of the locality saved by the reduction in the State income tax, as in Baltimore, they have had to pay for by an increase in the real estate tax. Less visibly but perhaps with more disastrous effects, the same residents paid for their income tax reduction by a lack of repair and maintenance of essential facilities, such as city streets. It is always desirable to reduce taxation when the reduction is a real one and can be met without sacrifice of the vital interests of the residents of a state. But if the welfare of the individual residents of Maryland as a whole be considered, there is strong reason to believe that welfare will be better promoted by adoption of the Commission's recommendation, even though it would mean a smaller reduction or no reduction in the statutory rates of the income tax.

The budget approved by the General Assembly of Maryland for the year 1947 fixes the Maryland state income tax rates at 2% of ordinary income and 5% of investment income. Under that budget, if the rates are not reduced, the localities would receive almost the amounts which they would receive were the Commission's recommendations to be adopted. The difference would be ¼ of 1% on investment income and ⅛ of 1% on ordinary income.

It would seem, therefore, that under the Commission's recommendations the validity of the income tax as an important source of State revenue would not be sapped practically or legally. The total effective rates collected from the individual taxpayers in the State, including the fixed percentage of income to go to the localities and the percentage of income to be retained by the State, would not be as low as they have been during the war years, but the Commission believes that the residents of the State as a whole would nevertheless be benefited. Ample reserve would be left to the State in connection with the income tax should economic circumstances force it to draw upon that reserve.

Under the Commission's proposal, some of the counties would receive substantially more revenue than they ever received from the intangible personal property tax, but, in some cases, those counties are the ones which, because of growth in their population, are facing budgetary problems which they did not face when the intangible personal property tax was in effect. If some of the counties, despite this factor, receive more revenue from this source than they would seem to require, their needs for assistance from the State in other respects would be correspondingly less, and adjustments could be made accordingly.

The incorporated cities and towns, under the Commission's recommendation, would continue to receive the same share of the income tax allocated to the counties as they do under the present system. They would therefore, in most cases, receive substantially more revenue under the proposal herein made.

The Commission has considered two alternative suggestions in connection with its recommendation. The first alternative would be for the State to authorize the localities to levy their own income taxes at such rates as they might desire. This alternative would mean the imposition of a third income tax upon taxpayers who already have to file two income tax returns, one to the Federal Government and one to the State. The second alternative would be for the State to collect such a local income tax in connection with the collection of the State income tax, so that the taxpayers would not have to make a third additional return. Under both alternatives, however, there would be a substantial variation in the rates of income taxes paid by individual residents of Maryland, dependent upon the particular locality in which they reside. Such differences might and probably would artificially accelerate the removal of residences from Baltimore City to one of the counties, or from one county to another, and so would intensify the financial problems of some of the localities. Under both alternatives, there would be a drastic departure from the principle which the Commission believes should govern—that, apart from the tax on real estate, local tax disparities between the sub-divisions should be lessened rather than aggravated.

It is true that a tax of .625 of ordinary income to be allocated to the political sub-divisions, as recommended by the Commission, is an odd fraction. If it had to be calculated by the taxpayers it might for that reason be somewhat complicated. However, the General Assembly would undoubtedly take that factor into account in fixing the over-all tax, which is the only tax to be paid by the taxpayer, so that the tax on ordinary income, as well as the tax on investment income, would be on the basis of an easily calculable percentage.

Effect of Recommendation.

It is impossible to estimate accurately the revenues from the State income tax for the years to come. However, we can show the effect of the recommendation of this Commission if it had been in effect for the past two fiscal years.

Table No. 3 shows the proposed allocation to Baltimore City, the counties and the incorporated towns. (See also Graph B).

Table No. 3

Summary of Estimated Effect of Resident Individual Income Tax Revenue and Allocation Revisions Proposed as Applied to Fiscal Years Ended June 30, 1946 and 1945.

	1946		1945	
	Actual	Revision Proposed	Actual	Revision Proposed
Revenue:				
Gross Receipts:				
Current Year Returns	$ 5,246,777.30	$ 5,246,777.30	$ 6,891,569.39	$ 6,891,569.39
Prior Year Returns	1,326,319.46	1,326,319.46	894,781.23	894,781.23
Total	$ 6,573,096.76	$ 6,573,096.76	$ 7,786,350.62	$ 7,786,350.62
Less Refunds, etc.	44,893.74	44,893.74	86,337.83	86,337.83
Net	$ 6,528,203.02	$ 6,528,203.02	$ 7,700,012.79	$ 7,700,012.79

Table No. 3 (cont'd.)

	1946 Actual	1946 Revision Proposed	1945 Actual	1945 Revision Proposed
Allocation of Net Revenue:				
State General Fund	$ 4,896,153.28	$ 2.790,809.08	$ 5,774,995.61	$ 4.100,230.66
Baltimore City	$ 928,662.99	$ 2,126,638.25	$ 1,122,130.60	$ 2,098,384.22
Allegany County:				
Barton	$ 102.85	$ 235.53	$ 121.18	$ 226.61
Cumberland	10,341.24	23,681.44	11,761.73	21,994.44
Frostburg	1,079.40	2,471.83	1,334.47	2,495.46
Lonaconing	286.88	656.96	339.83	635.48
Luke	160.28	367.04	208.08	389.11
Midland	43.34	99.25	44.88	83.93
Westernport	344.64	789.23	412.36	771.11
County	16,793.63	38,457.40	19,364.24	36,211.12
Total	$ 29,152.26	$ 66,758.68	$ 33,586.77	$ 62,807.26
Anne Arundel County:				
Annapolis	$ 3,971.89	$ 9,095.63	$ 4,750.92	$ 8,884.22
Arundel-on-the-Bay	9.15	20.95	10.20	19.07
County	34,134.43	78,167.85	42,194.48	78,903.68
Total	$ 38,115.47	$ 87,284.43	$ 46,955.60	$ 87,806.97
Baltimore County	$ 201,184.85	$ 460,713.31	$ 250,272.79	$ 468,010.12
Calvert County:				
Chesapeake Beach	$ 15.69	$ 35.93	$ 35.59	$ 66.55
North Beach	98.03	224.49	79.81	149.24
Solomons				
County	1,970.16	4,511.67	2,148.15	4,017.05
Total	$ 2,083.88	$ 4,772.09	$ 2,263.55	$ 4,232.84
Caroline County:				
Denton	$ 344.65	$ 789.25	$ 331.19	$ 619.33
Federalsburg	835.65	1,913.64	1,030.25	1,926.57
Goldsboro	46.20	105.80	23.31	43.59
Greensboro	168.90	386.78	143.54	268.42
Hillsboro	17.11	39.18	64.32	120.28
Marydel	13.12	30.04	40.71	76.13
Preston	401.88	920.31	470.07	879.03
Ridgely	173.25	396.74	247.72	463.24
County	2,616.43	5,991.63	3,349.49	6,263.53
Total	$ 4,617.19	$ 10,573.37	$ 5,700.60	$ 10,660.12

Table No. 3 (cont'd.)

	1946 Actual	1946 Revision Proposed	1945 Actual	1945 Revision Proposed
Carroll County:				
Hampstead	$ 240.90	$ 551.66	$ 279.17	$ 522.05
Manchester	124.44	284.97	174.22	325.79
Mt. Airy	213.35	488.57	224.05	418.97
New Windsor	145.02	332.10	139.42	260.72
Sykesville	192.44	440.69	185.67	347.20
Taneytown	268.04	613.81	339.40	634.68
Union Bridge	118.34	271.00	169.83	317.58
Westminster	2,179.69	4,991.49	2,691.58	5,033.25
County	7,399.42	16,944.67	10,026.53	18,749.62
Total	$ 10,881.64	$ 24,918.96	$ 14,229.87	$ 26,609.86
Cecil County:				
Cecilton	$ 22.31	$ 51.09	$ 33.45	$ 62.55
Charleston	70.34	161.08	73.77	137.95
Chesapeake City	101.27	231.91	177.98	332.82
Elkton	1,329.00	3,043.41	2,167.21	4,052.68
North East	430.47	985.78	450.38	842.21
Perryville	315.13	721.65	439.34	821.57
Port Deposit	299.76	686.45	361.96	676.87
Rising Sun	266.70	610.74	308.30	576.52
County	12,843.09	29,410.67	15,217.99	28,457.64
Total	$ 15,678.07	$ 35,902.78	$ 19,230.38	$ 35,960.81
Charles County:				
Indian Head	$ 582.67	$ 1,334.31	$ 809.63	$ 1,514.01
La Plata	459.66	1,052.62	306.82	573.75
County	5,068.62	11,607.15	5,434.55	10,162.61
Total	$ 6,110.95	$ 13,994.08	$ 6,551.00	$ 12,250.37
Dorchester County:				
Cambridge	$ 3,619.09	$ 8,287.72	$ 3,473.29	$ 6,495.05
Church Creek	15.22	34.85	20.34	38.04
East New Market	95.44	218.56	131.31	245.55
Hurlock	262.65	601.47	301.60	563.99
Secretary	17.45	39.96	11.27	21.07
Vienna	74.89	171.50	174.82	326.91
County	6,134.74	14,048.55	6,621.32	12,381.88
Total	$ 10,219.48	$ 23,402.61	$ 10,733.95	$ 20,072.49

Table No. 3 (cont'd.)

	1946 Actual	1946 Revision Proposed	1945 Actual	1945 Revision Proposed
Frederick County:				
Brunswick	$ 663.99	$ 1,520.54	$ 969.29	$ 1,812.57
Burkittsville	12.29	28.14	25.13	46.99
Emmitsburg	174.36	399.28	231.31	432.55
Frederick	5,050.26	11,565.10	6,270.70	11,726.21
Jefferson			.52*	.97*
Middletown	195.49	447.67	228.17	426.68
Myersville	19.27	44.13	27.33	51.11
New Market	36.56	83.72	65.34	122.19
Thurmont	194.03	444.33	326.87	611.25
Walkersville	273.43	626.15	252.24	471.69
Woodsboro	36.83	84.34	65.96	123.35
County	11,782.88	26,982.80	14,242.66	26,633.76
Total	$ 18,439.39	$ 42,226.20	$ 22,704.48	$ 42,457.38
Garrett County:				
Accident	$ 9.02	$ 20.66	$ 8.06	$ 15.07
Deer Park	10.73	24.57	12.65	23.66
Friendsville	11.95	27.37	15.94	29.81
Grantsville	72.97	167.10	93.30	174.47
Kitsmillersville	30.68	70.26	17.58	32.87
Loch Lynn Heights	2.06	4.72	17.42	32.58
Mountain Lake Park	40.96	93.80	26.44	49.44
Oakland	606.30	1,388.43	735.23	1,374.88
County	1,209.29	2,769.26	1,450.84	2,713.07
Total	$ 1,993.96	$ 4,566.17	$ 2,377.46	$ 4,445.85
Harford County:				
Aberdeen	$ 1,436.54	$ 3,289.68	$ 2,010.36	$ 3,759.37
Bel Air	1,487.49	3,406.35	1,744.52	3,262.25
Havre de Grace	1,842.06	4,218.32	2,585.01	4,833.97
County	13,829.55	31,669.67	17,676.24	33,054.57
Total	$ 18,595.64	$ 42,584.02	$ 24,016.13	$ 44,910.16
Howard County	$ 9,576.31	$ 21,929.75	$ 10,739.75	$ 20,083.33
Kent County:				
Betterton	$ 33.04	$ 75.66	$ 50.52	$ 94.47
Chestertown	899.94	2,060.86	1,089.39	2,037.16
Galena	46.56	106.62	28.67	53.61
Millington	45.44	104.06	61.03	114.13
Rock Hall	182.16	417.15	166.07	310.55
County	2,804.75	6,422.88	3,832.68	7,167.11
Total	$ 4,011.89	$ 9,187.23	$ 5,228.36	$ 9,777.03

(* Indicates Red)

Table No. 3 (cont'd.)

	1946 Actual	1946 Revision Proposed	1945 Actual	1945 Revision Proposed
Montgomery County:				
Barnesville	$ 18.87	$ 43.21	$ 16.85	$ 31.51
Brooksville	302.34	692.36	657.58	1,229.67
Gaithersburg	542.85	1,243.13	542.06	1,013.65
Garrett Park	206.02	471.79	211.39	395.30
Glen Echo	140.18	321.01	117.64	219.99
Kensington	1,458.14	3,339.14	1,371.68	2,565.04
Leytonsville	83.34	190.85	124.20	232.25
Poolesville	65.86	150.82	90.50	169.24
Rockville	2,013.09	4,609.98	1,952.33	3,650.86
Somerset	788.15	1,804.86	643.86	1,204.02
Takoma Park	4,262.58	9,761.31	4,210.68	7,873.97
Washington Grove	149.94	343.36	116.81	218.43
Chevy Chase No. 2	5,424.68	12,422.52	5,957.34	11,140.23
Chevy Chase No. 3	1,387.82	3,178.11	1,404.47	2,626.36
Chevy Chase No. 4	4,262.58	9,761.31	5,632.26	10,532.33
Chevy Chase No. 5	1,160.33	2,657.16	1,252.38	2,341.95
Chevy Chase View	341.38	781.76	306.40	572.97
North Chevy Chase	95.08	217.73	128.57	240.43
Oakmont	14.82	33.94	32.29	60.38
North West Park	46.94	107.49	3.42	6.40
Friendship	262.70	601.58	289.08	540.58
Martin's Addition	759.23	1,738.64	998.16	1,866.56
Drummond	158.42	362.78	174.42	326.17
County	150,893.58	345,546.29	154,116.01	288,196.92
Total	$ 174,838.92	$ 400,381.13	$ 180,350.38	$ 337,255.21
Prince George's County:				
Berwyn Heights	$ 173.68	$ 397.73	$ 185.28	$ 346.47
Bladensburg	312.73	716.15	357.58	668.67
Boulevard Heights	31.83	72.89	40.54	75.81
Bowie	286.04	655.03	225.48	421.65
Brentwood	809.30	1,853.30	705.06	1,318.46
Capitol Heights	321.17	735.48	312.16	583.74
Cheverly	997.58	2,284.46	931.49	1,741.89
Colmar Manor	279.70	640.51	286.31	535.40
Cottage City	398.55	912.68	381.83	714.02
District Heights	160.58	367.73	168.87	315.79
Edmonston	109.94	251.76	111.86	209.18
Fairmount Heights	22.02	50.43	17.80	33.29
Greenbelt	527.45	1,207.86	452.47	846.12
Hyattsville	5,985.66	13,707.16	6,946.22	12,989.43
Laurel	1,362.50	3,120.13	1,517.99	2,838.64
Mt. Rainier	3,038.72	6,958.67	2,902.49	5,427.66
North Brentwood			.52*	.97*
Riverdale	1,525.88	3,494.27	1,573.96	2,943.31
Seat Pleasant	404.84	927.08	396.09	740.69
Takoma Park	1,072.25	2,455.45	985.33	1,842.57

(* Indicates Red)

Table No. 3 (cont'd.)

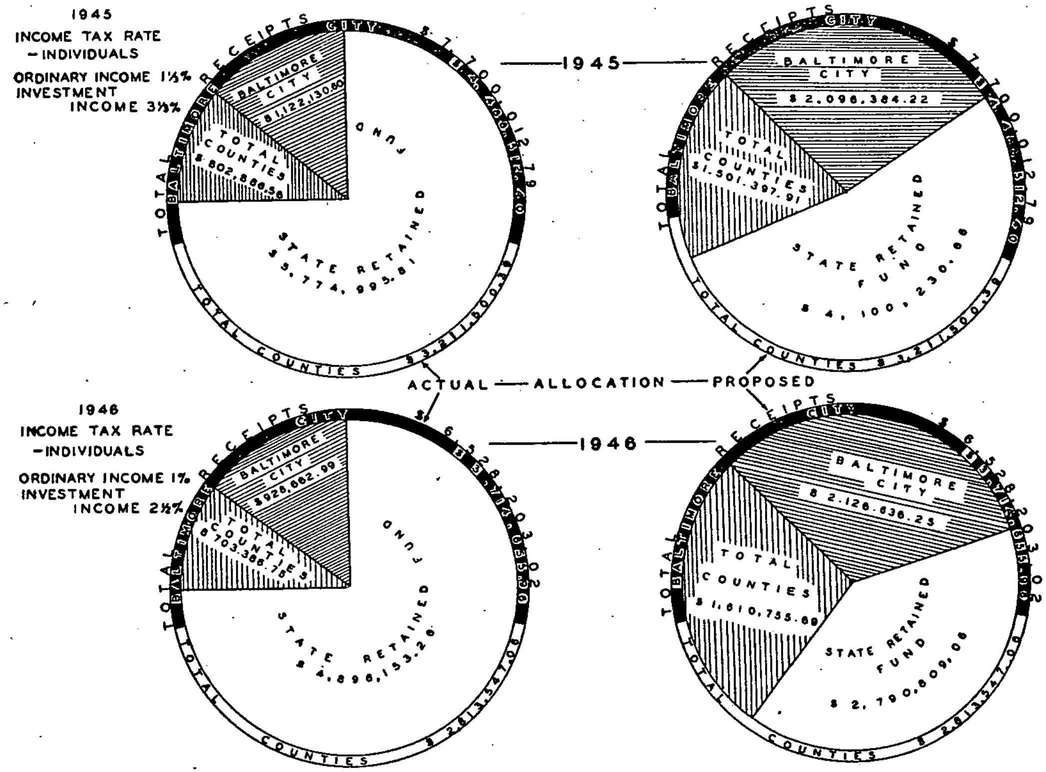
	1946 Actual	1946 Revision Proposed	1945 Actual	1945 Revision Proposed
Prince George's County (cont'd.):				
University Parkway	1,184.03	2,711.43	1,203.50	2,250.55
Upper Marlboro	814.03	1,864.13	672.60	1,257.76
College Park	1,177.58	2,696.66		
Landover Hills	144.00	329.76		
County	43,742.42	100,170.13	41,007.13	76,683.31
Total	$ 64,882.48	$ 148,580.88	$ 61,381.52	$ 114,783.44
Queen Anne's County:				
Centreville	$ 243.41	$ 557.41	$ 370.69	$ 693.19
Church Hill	37.48	85.83	32.89	61.50
Queenstown	92.30	211.37	177.72	332.34
Sudersville	152.90	350.14	180.86	338.21
County	8,692.63	19,906.12	10,813.67	20,221.56
Total	$ 9,218.72	$ 21,110.87	$ 11,575.83	$ 21,646.80
St. Mary's County:				
Leonardtown	$ 331.81	$ 759.84	$ 175.43	$ 328.05
County	3,064.11	7,016.82	3,569.90	6,675.72
Total	$ 3,395.92	$ 7,776.66	$ 3,745.33	$ 7,003.77
Somerset County:				
Crisfield	$ 1,116.85	$ 2,557.59	$ 1,001.20	$ 1,872.24
Princess Anne	409.97	938.83	306.16	572.52
County	3,402.81	7,792.43	3,365.27	6,293.06
Total	$ 4,929.63	$ 11,288.85	$ 4,672.63	$ 8,737.82
Talbot County:				
Easton	$ 3,037.40	$ 6,955.65	$ 2,708.40	$ 5,064.71
Oxford	281.39	644.38	327.23	611.92
St. Michaels	402.76	922.32	345.13	645.39
Trappe	209.79	480.42	39.45	73.77
County	8,454.43	19,360.64	10,602.77	19,827.18
Total	$ 12,385.77	$ 28,363.41	$ 14,022.98	$ 26,222.97

Table No. 3 (cont'd.)

	1946 Actual	1946 Revision Proposed	1945 Actual	1945 Revision Proposed
Washington County:				
Boonsboro	$ 203.42	$ 465.83	$ 241.80	$ 452.17
Clear Spring	71.39	163.48	70.86	132.51
Funkstown	80.06	183.34	296.59	554.62
Hagerstown	15,032.98	34,425.52	18,471.53	34,541.76
Hancock	245.77	562.81	455.25	851.32
Keedysville	51.27	117.41	60.89	113.86
Sharpsburg	72.59	166.23	131.67	246.22
Smithsburg	238.46	546.07	216.26	404.41
Williamsport	577.19	1,321.77	605.36	1,132.02
County	22,634.04	51,831.96	27,435.44	51,304.28
Total	$ 39,207.17	$ 89,784.42	$ 47,985.65	$ 89,733.17
Wicomico County:				
Delmar	$ 200.96	$ 460.20	$ 270.20	$ 505.27
Hebron	74.92	171.57	89.21	166.82
Mardela Springs	112.54	257.72	115.76	216.47
Salisbury	5,538.67	12,683.55	5,525.90	10,333.43
Sharptown	34.48	78.96	58.79	109.94
Willards	22.29	51.04	16.35	30.57
Pittsville	142.82	327.06		
County	9,769.12	22,371.28	9,690.74	18,121.70
Total	$ 15,895.80	$ 36,401.38	$ 15,766.95	$ 29,484.20
Worcester County:				
Berlin	$ 710.00	$ 1,625.90	$ 1,013.29	$ 1,894.85
Ocean City	350.86	803.47	307.05	574.18
Pocomoke City	977.05	2,237.44	1,188.41	2,222.33
Snow Hill	514.30	1,177.75	390.46	730.16
County	5,419.15	12,409.85	5,895.41	11,024.42
Total	$ 7,971.36	$ 18,254.41	$ 8,794.62	$ 16,445.94
GRAND TOTAL	$ 6,528,203.02	$ 6,528,203.02	$ 7,700,012.79	$ 7,700,012.79

Graph B

INCOME TAX COLLECTED BY THE STATE
AND
ACTUAL AND PROPOSED ALLOCATION
INDIVIDUALS ONLY



THE TAX ON RACING.

General Statement

Racing thoroughbred horses is traditional in Maryland. In recent years, however, racing has become more than an avocation enjoyed by a limited minority of the Maryland citizenry. For in Maryland, as in the nation as a whole, racing has grown into a prodigious industry, ranking in size with the largest business enterprises within the State.

For many years racing has been subject to various forms of State taxation. The system of taxation has, however, grown in a piecemeal fashion and for this reason, among others, it is neither modern in theory nor fair in application. Moreover, with one minor exception, no part of the revenues received from racing is subject to allocation between the State and its local political sub-divisions. The result of these factors is a situation bristling with inequities both to the racing industry and to the State and its local political sub-divisions.

The Commission believes that no method of allocation will be fair if it is predicated upon a system of taxation which is itself unsound. The Commission recommends, therefore, that the entire system of State taxation applicable to racing should be modernized and brought into line with the system of taxation which obtains in the majority of states in which racing is considered to be a major industry. The Commission further recommends that the revenues derived from racing should be allocated between the State, its local political sub-divisions and the Maryland State Fair Board.

Present Method of Taxation

In order that the recommendations of the Commission with respect to the change in the system of State taxation applicable to racing may be clearly understood, it is desirable to sketch briefly the present method by which State revenues are obtained from the racing industry. In this connection, the tax on admissions and the State income tax, both applicable to racing but discussed in detail elsewhere in this report, will not be considered. The four major race tracks (Havre de Grace, Pimlico, Laurel, and Bowie) will be referred to hereafter as "Mile Tracks", and the five minor race tracks (Bel Air, Timonium, Marlboro, Hagerstown, and Cumberland) will be referred to hereafter as "Half Mile Tracks".

At the present time[1] the mile tracks pay to the State a license fee of $6,000 a day for each day that racing is authorized. Under normal conditions there are one hundred days of racing allocated to the four mile tracks. In addition, these tracks pay a tax on net revenues at a rate of 15%. Mile tracks are also subject to a tax of 2% on the pari-mutuel pool, the tracks being allowed to retain 8% of the pool for their own purposes.[2] The State also receives "breakage" from the mile tracks in accordance with an amendment made in 1945 to Section 13 of Article 78B of the Annotated Code. In addition, the mile tracks contribute $4,000. a year to the Maryland State Fair Board and $2,000. a year to the Maryland Horse Breeders' Association.

The half mile tracks, on the other hand, pay to the county in which the meet is held a license fee of $50 a day for each

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[1] With respect to the tax on pari-mutuel sales there have been numerous changes in the rate of tax during the years covered by this report. These changes are shown in the following tabulation which summarizes the various forms and rates of tax in effect during the period under review:

Years	Daily License Fee	Tax on Net Revenue	Pari-Mutuel Total	Commission To Track	Commission To State	Breakage To Tracks	Breakage To State
1925-32	$6,000.00	15%	5%	5%	None	Nickel	None
1933	$6,000.00	15%	5%	4%	1%	Dime	"
1934	$6,000.00	15%	7%	6%	1%	Nickel	"
1935-37	$6,000.00	15%	7½%	6½%	1%	"	"
1938:							
Spring	$6,000.00	15%	7½%	6½%	1%	"	"
Fall	$6,000.00	15%	8½%	7½%	1%	"	"
1939:							
Spring	$6,000.00	15%	8½%	7½%	1%	"	"
Fall	$6,000.00	15%	10%	8%	2%	"	"
1940-44	$6,000.00	15%	10%	8%	2%	"	"
1945	$6,000.00	15%	10%	8%	2%	None	Nickel

[2] At present, ½ of 1% is required to be deposited in a fund for additions and improvements authorized and approved by the Maryland Racing Commission.

racing day, there being no State license fee on their operation. In addition, the half mile tracks pay to the State a tax on net revenues at the rate of 5% and are also subject to a tax of 2% on money wagered in excess of $500,000 at any one meet.

As stated above, the Commission believes the present method of raising revenues from racing in Maryland is outmoded and discriminatory and therefore should be changed. With respect to the system applicable to the mile tracks, it is clear the daily license fee is burdensome. Thus, when an association is granted the privilege of conducting a race meet for twenty-five days, it immediately incurs an obligation to the State of $150,000. Should business prove bad for any number of reasons, including the weather, the association is faced with a possible deficit. While it may be true that the daily license fee insures an established amount of State revenue, it is nevertheless a fact that the tax is not gauged on the ability to pay, a theory generally recognized in Maryland, as elsewhere, as the more equitable approach.

The tax on net revenues is similarly subject to criticism. This tax is neither an exaction in the nature of a gross receipts tax nor is it an income tax. Its computation multiplies its inequities. Thus, while masquerading under the guise of a tax on "net revenues" the association subject to tax is not allowed to take such normal deductions as depreciation, charitable contributions, taxes and officers' salaries which are more than a set arbitrary figure. If the tax could be considered to be an income tax, it conflicts with the Maryland income tax imposed by Section 222 et seq. of Article 81 of the Annotated Code. Moreover, the tax on net revenues places an unwarranted burden on the association to which it applies because it requires the maintenance of additional records, books and papers and the employment of additional clerical and similar personnel. Finally, it is important to consider that no other state in which racing is a major industry imposes a tax on net revenues similar to the Maryland tax.

The present method by which the half mile tracks are taxed in Maryland is as equally unsound and discriminatory as the system applicable to the mile tracks. With respect to the tax on net revenues, the reasons stated above apply to the half mile tracks in the same manner as they apply to the mile tracks. However, when the system applicable to the half mile tracks is considered from the point of view of the overall picture presented by the racing industry in Maryland, it becomes clear that the principal inequity which exists does not flow from the types of taxes applicable to the tracks in question but arises chiefly from the amount of taxes which they pay. This results from the fact that the half mile tracks enjoy an unwarranted preferential position, taxwise, as compared to the mile tracks.

As previously stated, the half mile tracks do not pay the State license fee of $6,000 per day for each day that racing is authorized. Moreover, these tracks are not subject to a tax on the pari-mutuel pool unless gross wagers for any one meet exceed $500,000. There are two principal reasons why these tracks are afforded a preferential tax position. In the first place, it was formerly believed that racing at the smaller tracks would not be comparable in size or scope with that which obtains at the mile tracks. It was natural, therefore, to believe that racing at the smaller tracks should be afforded some protection from the State in the nature of a lighter tax burden. In the second place, the half mile tracks were granted their franchises in order that they could support and maintain agricultural fairs. In this connection, it was the original intention of the Legislature that the operations conducted at the smaller tracks would be in the nature of non-profit enterprises, since any profits realized from racing were to be used to support the agricultural fairs and exhibits.

The situation which exists today is strikingly different from that which the Legislature had visualized when the half mile tracks were granted their charters and their preferential tax positions. It can no longer be said that the operations conducted at the smaller tracks are not comparable in size and scope with those conducted at the larger tracks. Thus, the 26th Annual Report of the Maryland Racing Commission states at page 5:

> The picture as presented by the Associations operating Minor or Half Mile Tracks has changed completely during the past decade. The impetus reached in the popularity of racing and wagering has reflected itself in the great increase in this business. The volume of 1942-3-4 and 5 is commensurate with that of the Major Tracks some years back. *The Minor Tracks no longer can be put in category of small business either from the viewpoint of their own interest or from that of the State and the public.* This is made evident by the charts in the subsequent exhibits attached hereto. These Associations serve one of the purposes for which they originally were franchised which is to encourage the exhibition and improvement of farm products and live stock. Every reasonable consideration should be given to their supervision in acknowledgment of their very important potentiality to further the agricultural interest of the State. (Italics supplied.)

This Commission is convinced that the majority of the half mile tracks are operated today primarily for the purpose of making money for officers, directors and owners and not for the purpose of supporting agricultural fairs. The Reports of the Maryland Racing Commission show that such half mile tracks as Bel Air and Marlboro, for example, have produced substantial profits during periods when the mile tracks sustained deficits or only small profits. For instance, during the years 1938 to 1945, dividends were distributed to the stockholders of The Maryland Jockey Club of Baltimore City (Pimlico) in three different years. During the same period, dividends were distributed to the stockholders of Southern Maryland Agricultural Fair Association (Marlboro) in six different years, and distributions were made to the stockholders of Harford County Fair Association, Inc. (Bel Air) in every year in which racing was conducted. The total amount of dividends distributed in the years 1938 to 1945 inclusive by The Maryland Jockey Club of Baltimore City (Pimlico) was $77,180.00. During the same period, the total amount of dividends distributed by Southern Maryland Agricultural Fair Association (Marlboro) was $149,326.00, and $64,750.00 in similar distributions were made by Harford

County Fair Association, Inc. (Bel Air). The following table presents an analysis of the dividends distributed in the past eight years by the above mentioned racing associations:

	Pimlico	*Marlboro*	*Bel Air*
1945	$ 22,700.00	$ 19,700.00	$ 10,000.00
1944	22,700.00	....	20,000.00
1943	....	21,276.00	no meet
1942	31,780.00	54,175.00	10,000.00
1941	....	19,700.00	10,000.00
1940	....	19,700.00	3,750.00
1939	....	....	3,750.00
1938	....	14,775.00	7,250.00

Moreover, dividend distributions do not present the entire picture. This results from the fact that in the majority of cases in which the half mile tracks paid no dividends, they did pay substantial salaries to those persons interested in their operation. It is not too difficult to conclude, therefore, that at least some of the half mile tracks are presently conducting a profitable business behind the facade of supporting agricultural fairs and exhibits.

As pointed out above, the system by which the racing industry is taxed in Maryland is not only discriminatory within itself and unfair to both the industry and the State but is also outmoded when compared with the system which obtains in other states in which racing is conducted on a large scale. In this connection, the important fact is that with the exception of Kentucky, all of the major racing states receive approximately 80% or more of their revenues from horse racing by taking a percentage of the pari-mutuel pool. In Maryland, however, only 58% of the taxes derived from racing are taken from the pool. A synopsis of the situation which obtains in other states is as follows:

1. *California* receives 99.8% of its revenues from racing by taking a percentage of the pari-mutuel pool. The tax is calculated on a sliding scale based upon the total pool for the entire racing season at each track. The rate of tax on the pari-mutuel pool in California is as follows: 4% on the first

$10,000,000; 5% on the next $10,000,000; and 6% on all over $20,000,000. Other methods of taxing racing revenues include a small license fee. The total "take" allowed in California is 13%, plus breakage on the basis of a 5c split.

2. *Florida* receives 89.4% of its revenue from racing by taking a percentage of the pari-mutuel pool. In Florida the tax on pari-mutuel betting is 8% and the State receives the breakage. The State also receives revenues from licenses. The total "take" allowed in Florida is 15%.

3. *Illinois* receives more than 77% of its revenue from racing by taking a percentage of the pari-mutuel pool. Other methods of taxing racing in Illinois are a daily license fee, a 20c tax on admissions, a horseman's license fee and certain miscellaneous taxes. In Illinois the tax on pari-mutuel betting is 2%, and the total "take" allowed is 10% for tracks in suburban areas and 11% for tracks operating in rural districts, as defined. The tracks are allowed to keep the breakage figured on a basis of 10c.

4. *Louisiana* receives more than 88% of its revenue from racing by taking a percentage of the pari-mutuel pool. The sources of the other 12% of tax revenues include a tax on admissions, receipts from licenses issued, fines assessed and fairgrounds cash bonds. In Louisiana, the tax on the pari-mutuel betting is imposed on the daily pool. On the first $100,000 of this pool, the tax is 2%, with a minimum payment of $1,000. per day; on the next $50,000, the tax is 5%; on the next $50,000., the tax is 6%; on everything over $200,000., the tax is 7%. The total "take" allowed in Louisiana is 13%, with the net track share being in each instance the difference between 13% and the several percentages above. The track gets the breakage figured on the basis of 10c.

5. *Massachusetts* receives almost 80% of its revenue from racing by taking a percentage of the pari-mutuel pool. The additional revenue derived from racing is made up chiefly from breakage. The rate of tax on the pari-mutuel pool is 3½% in Massachusetts. The total "take" allowed is 10%.

6. *New Hampshire* receives 100% of its revenue from racing by taking a percentage of the pari-mutuel pool. The rate of tax is 5%. The total "take" allowed in New Hampshire is 11%, and the tracks are allowed to keep one-half of the breakage computed on a basis of 10c.

7. *New Jersey* receives more than 98% of its revenue from racing by taking a percentage of the pari-mutuel pool. The additional revenue received consists of a small license fee, fines, under-pay and uncashed mutuel tickets. The rate of tax on the pari-mutuel pool in New Jersey is 4%. The total "take" allowed is 10%, and the track is allowed to keep the breakage computed on the basis of 5c.

8. *New York* receives more than 99% of its revenues from racing by taking a percentage of the pari-mutuel pool. The additional revenue received is comprised of a small license fee, and uncashed mutuel tickets. The rate of tax on the pari-mutuel pool in New York is 6%. Under a recent amendment the City of New York receives an additional 5% of the pari-mutuel pool. The total "take" allowed in New York is 10%, and the track is also allowed to keep 40% of the breakage computed on the basis of 5c.

9. *Ohio* receives 100% of its revenues from racing by taxing the pari-mutuel pool. The tax is figured on the track "take", which is 10% of gross wagers and is computed on a sliding scale of rates ranging from 10% to 30%. This scale is as follows: 10% on the first $1,000 of the "take"; 15% on the next $4,000 of the "take"; 20% on the next $5,000 of the "take"; 22½% on the next $5,000 of the "take"; 25% on the next $5,000 of the "take"; 30% on all over $20,000.

10. *Rhode Island* receives 100% of its revenue from racing by taxing the pari-mutuel pool. The tax is 3½% of pari-mutuel wagers, and the total track "take" is 10%. The track is also allowed to keep the breakage figured on a basis of 5c.

The data which follow are a synoptical comparison of Maryland with the ten leading racing states discussed hereinabove.

State	% of all revenues realized from pari-mutuel[1]	% tax on pari-mutuel pool	Gross "take" allowed[2]	Breakage
California	99.8%	4 - 6%	13%	To track
Florida	89.4%	8%	15%	To state
Louisiana	88%	2 - 7% on daily pool	13%	To track
Massachusetts	80%	3½%	10%	To state
New Hampshire	100%	5%	11%	½ to state
New Jersey	98.07%	4%	10%	To track
New York	99.3%	6%	10%	60% to state
Ohio	100%	1 - 3%	10%	
Rhode Island	100%	3½%	10%[3]	To state
Illinois	77%	2%	10%[4]	To track
Maryland (1945)	58%	2%[5]	10%	To state[6]

The Proposed Method of Tax

In order that the inequities to the racing industry and the State of Maryland which are produced by the present system may be corrected, and to bring Maryland into line with the majority of states in which racing is a principal industry, the Commission recommends that the following changes should be made:

1. The tax on net revenues on both the mile and the half mile tracks should be abolished.

2. The daily license fee on mile tracks should be reduced to $1,000 per day.

3. The tax on the gross pari-mutuel pool should be increased to 4%, and apply equally to the mile and half mile tracks; the total "take" to remain in each case, as at present, at 10%.

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[1] Approximations only.
[2] Does not include breakage.
[3] This figure does not include harness racing.
[4] 11% allowed to tracks operated in rural districts, as defined.
[5] On half mile tracks, this figure is applicable on all wagers in excess of $500,000.
[6] Mile tracks only.

The Commission further recommends that no change should be made with respect to the following:

1. The daily license fee on half mile tracks.
2. Breakage should go to the State from the mile tracks, but should be retained by the tracks in the case of the half mile tracks.
3. The Maryland State Fair Board should continue to receive $4,000. annually from each mile track, and the Maryland Horse Breeders' Association should continue to receive $2,000. annually from each mile track.

Impact of the Recommendations.

To aid in the analysis of the recommendation made by the Commission, the section of the report that follows will be divided into three parts i. e. (1) the impact of the proposal on the mile tracks; (2) its impact on the half mile tracks; and (3) general considerations. Moreover, there will be included hereinbelow certain historical data which will be useful in comparing the situation as (1) it did exist; (2) it would have existed had the present system of taxation been in effect during the years in question; and (3) it would have existed had the recommendation of the Commission been in effect during the years in question.

Mile Tracks

As shown by the following data, the total tax paid to the State of Maryland by the mile tracks under the tax laws actually in existence in the last twenty-one years amounted to $24,586,130.60. This amount was paid by the respective tracks as follows:

Bowie	$ 4,176,551.18
Havre de Grace	4,238,539.60
Laurel	6,899,202.59
Pimlico	9,271,837.23
Total	$24,586,130.60
Average per year	$ 1,170,768.12

If the method of taxing the racing industry which now exists had obtained for the past twenty-one years, there would have been collected by the State (assuming all other factors of income and expense to be the same) a total of $39,487,786.13. This amount would have been paid by the respective tracks as follows:

Bowie	$ 7,512,142.63
Havre de Grace	7,627,854.53
Laurel	10,273,483.19
Pimlico	14,074,305.78
Total	$39,487,786.13
Average per year	$ 1,880,370.77

Had the recommendation made by the Commission been in effect for the past twenty-one years, the State would have received (assuming all other factors of income and expense to be the same) a total of $46,778,811.35. This amount would have been paid by the respective tracks as follows:

Bowie	$ 8,669,591.79
Havre de Grace	8,816,470.14
Laurel	11,934,244.15
Pimlico	17,358,505.27
Total	$46,778,811.35
Average per year	$ 2,227,562.45

It thus seems clear that the recommendations made above would prove to be decidedly advantageous from the point of view of increased revenues to the State. Only in a relatively few instances during the last twenty-one years would the taxes recommended by the Commission produce less revenue than the taxes which were actually in existence. These instances are as follows:

Year	Track	Amount Bet	Tax Yield — Under Present Rates	Tax Yield — Under Commission's Recommendations
1934	Bowie	$6,185,732.00	$326,317.00	$325,031.00
1934	Havre de Grace	5,977,416.00	323,289.00	317,837.00
1940	"	6,902,219.00	354,112.00	353,106.00
1934	Laurel	6,825,840.00	349,925.00	347,238.00
1935	"	6,134,470.00	327,242.00	324,931.00
1939	"	6,825,840.00	349,925.00	347,238.00

HALF MILE TRACKS.

During the nine years from 1937 to 1945, the State of Maryland received $808,330.09 in tax revenues from the half mile tracks. This amount was paid by the respective tracks as follows:

	Amount	Ratio to Total
Bel Air[1]	$215,571.31	26.70%
Cumberland	159,952.09	19.80%
Hagerstown	129,088.92	16.00%
Marlboro	219,619.31	27.10%
Timonium[2]	84,098.46	10.40%
Total	$808,330.09	100.00%
Average per year	$ 89,814.44	

There is presented below, for the purpose of comparison, a tabulation showing the amount of tax that would have been collected by the State (assuming all other factors of income and expense to be the same) had the present rates of tax been in effect during the entire period:

[1] No race meeting was conducted at this track during the year 1943.

[2] No race meetings were conducted at this track during the years 1943, 1944, and 1945.

	Amount	Ratio to Total
Bel Air	$241,955.39	27.20%
Cumberland	174,665.15	19.60%
Hagerstown	135,458.24	15.20%
Marlboro	232,855.33	26.20%
Timonium	104,961.11	11.80%
Total	$889,895.22	100.00%
Average per year	$ 98,877.25	

If the recommendation of the Commission had been in effect during the nine years from 1937 to 1945, the State would have received (assuming all other factors of income and expense to be the same) $2,420,658.08 in tax revenues from the half mile tracks. This amount would have been paid by the respective tracks as follows:

	Amount	Ratio to Total
Bel Air	$602,595.12	24.90%
Cumberland	495,381.56	20.50%
Hagerstown	424,307.68	17.50%
Marlboro	575,220.72	23.80%
Timonium	323,153.00	13.30%
Total	$2,420,658.08	100.00%
Average per year	$ 268,962.01	

From the tabulations set out above, it is clear that had the recommendations of the Commission been in effect during the last nine years, the State would have received an increase of $1,612,327.99 over the amount of tax revenues which were actually paid by the half mile tracks. This represents an increase in tax revenues of nearly 200%. In no instance would the Commission's recommendation have resulted in a smaller tax than would have been the case under the rates in effect at the present time.

General Considerations.

The productivity of the new system of taxing the racing industry recommended by the Commission will be directly related to the amount of business done at the various race tracks. The reason for this lies in the fact that under the recommended system, nearly four-fifths (79.6%) of the total tax will originate through the tax on pari-mutuel sales. The result will necessarily be that when business for the racing industry is good, the tax receipts inuring to the State will be large; but when business for the tracks is bad, the tax load will be correspondingly light. The Commission believes that the new system will therefore be more acceptable to both the racing industry and the State, because the ability to pay theory, with its increased tax potential in good times, will be substituted for the rigid and high rate of tax which is presently collectable without reference to the economic position of the taxable subject.

Because the amount of taxes produced by the system recommended by the Commission is directly related to the amount of pari-mutuel sales, the trend in betting during the past several years is of paramount significance. At Pimlico, for example (the only mile track which operated uninterruptedly during the last few years) the average daily betting was as follows:

Year	Average Daily Bet
1939	$ 353,263.00
1940	376,438.00
1941	458,544.00
1942	543,451.00
1943	767,461.00
1944	948,713.00
1945	1,149,336.00
Twenty-one year daily average	602,762.00

A similar rising trend has been experienced by the half mile tracks. Thus, at Cumberland (the other half mile tracks generally follow the same pattern) betting has increased as follows:

Year	Average Daily Bet
1937	$ 81,557
1938	78,918
1939	86,456
1940	106,229
1941	138,028
1942	135,852
1943	138,976
1944	213,692
1945	258,742
Nine year daily average	137,606

If the proposals made by the Commission are adopted it may be true that in a limited number of cases an attendant disadvantage will accrue to some of the tracks. However, the impact of the proposed increase in State taxes will be borne, in part, by the Federal Government. This is due to the fact that the increase in State tax will be accompanied by a reduction (38%, based on present law), in Federal income taxes, assuming that the tracks were subejct to the Federal tax. Thus, if the increase in the amount of State taxes on a particular track amounted to $100,000 such amount would reduce the track's liability for Federal income taxes by $38,000. The ultimate effect, therefore, would be as follows:

Tax revenues to the State would be increased by		$100,000.00
Net income of the track would be reduced by	$62,000.00	
Tax funds would be diverted from the Federal treasury to the State treasury to the extent of	38,000.00	
		$100,000.00

Distribution of State Revenues Derived from Racing.

With one exception, there is at the present time no allocation between the State and its local political sub-divisions with respect to the State revenue produced by the taxes on racing. Patent inequities result from this practice, the outstanding one being the situation which exists in Baltimore City with respect to Pimlico.

This track has produced large sums of revenues for the State each year but there has been no corresponding allocation of these funds to the City of Baltimore. Thus, in 1946, the State received $2,111,163.98 in taxes from Pimlico; in 1945, $1,245,916.49; in 1944, $1,648,373.92; in 1943, $639,000.08; in 1942, $439,371.62; in 1941, $366,718.50; in 1940, $331,321.02; and in 1939, $247,491.55 (joint meetings of the four mile tracks were held at Pimlico in 1945 and 1944). During the same period, Baltimore County received $3,000 for each day that racing was conducted at Pimlico. Moreover, these figures do not represent revenues received by the State from its tax on admissions and the State income tax. The inequity of this situation lies in the fact that while Baltimore receives no allocation of the above stated sums, it supplies at great expense to the City, police and fire protection to Pimlico and maintains the streets leading to and from the track.

A majority of the states in which racing is conducted either share tax revenues received from racing with their local units of government or dedicate a portion of the tax to roads, relief, schools, agriculture or veterans' funds. In Florida, for example, tax receipts from racing are divided between the counties of the state in equal shares, after a preliminary deduction has been made to pay for the expenses of the Racing Commission. California dedicates a large portion of the revenues received from racing to the promotion of agricultural fairs and exhibits and to schools. Allocation of a part of the proceeds from taxes and licenses on horse racing are made to state or county fairs in Illinois, Michigan, New Hampshire and New York. Funds realized from uncashed pari-mutuel tickets in Illinois are dedicated to the Illinois Veterans' Rehabilitation Fund. In Massachusetts, tax receipts from racing, after certain deductions have been made, are used to reimburse the cities and towns for assistance given by them to aged citizens.

In some of the states racing revenues are allocated to incorporated towns and cities. Detroit shared equally with the state in receipts from Michigan's pari-mutuel tax in 1944. In Rhode Island, one-half of the net revenues received from taxes on racing are paid to the cities and towns of the State in proportion to the existing valuation of their respective total taxable properties. At the present time New Orleans receives 75% of the tax revenues produced by racing in Louisiana, after an allocation of $250,000.00 has been made to the University of Louisiana, and New York City has been given and has exercised the privilege of imposing an additional 5% tax on the pari-mutuel pool.

The Commission recommends that the revenues received by the State from the taxes applicable to racing should be allocated between the State, its local political sub-divisions (including incorporated towns) and the Maryland State Fair Board. The system of allocation recommended by the Commission is as follows:

1. All tax revenues received by the State from the mile tracks should be paid into the State general fund. One half of these revenues would then be allocated to the counties and Baltimore City on the basis that the population of the counties and City bear to the population of the State, as determined by the latest available Federal census. The funds thus allocated to the counties would be subject to a further allocation between the county and its incorporated towns on the basis that the population of the incorporated towns bear to the population of the county as determined by the latest Federal census.

2. All tax revenues received by the State from the half mile tracks should be paid into the State general

fund. One-fourth of these revenues would then be allocated to the City of Baltimore, the counties and incorporated towns in the same manner as the revenues received from the mile tracks is allocated. One-fourth of the revenues would also be allocated to the Maryland State Fair Board to be used for the promotion of State and county fairs.

3. The Commission also recommends that the expenses of the Maryland Racing Commission should continue to be paid by appropriations from the State general fund.

In making the above recommendations, the Commission believes it to be desirable to state in some detail the reasons why a different method of allocation is suggested with respect to the funds received from taxes which are imposed upon the half mile tracks. As stated previously, the new system of taxation applicable to racing which is recommended by the Commission will operate in the same manner (with the exception of breakage and the daily license fee) upon the mile tracks and the half mile tracks. It was pointed out that the fundamental reason for this suggested change was that the operations conducted at the half mile tracks should no longer be considered to be different from those conducted at the mile tracks. The fact remains, however, that some of the half mile tracks continue to support agricultural fairs and exhibits. Since the impact of the new system of taxation recommended in this report might curtail this activity, and because the Commission feels that it is desirable for the State in general and racing conducted at the half mile tracks in particular to support agricultural fairs and exhibits, it is proposed that an allocation of taxes received from the half mile tracks be made to the Maryland State Fair Board, and that the Board be given the power to use the funds thus received in a manner best calculated to strengthen and revive, if necessary, the agricultural fairs and exhibits in Maryland.

The Maryland State Fair Board was created pursuant to Chapter 463, Sec. 12B of the Laws of 1937. The function of the Board was and is to encourage and foster agriculture in this State through promotion of and assistance to *bona fide* agricultural fairs and exhibits. As originally created, there was placed at the disposal of the Board for distribution $10,000, plus 1% of all wagers made at the half mile tracks in excess of $500,000. In addition the Board received $4,000 a year from each of the mile tracks.

In 1941, the Legislature modified the method by which the Maryland State Fair Board received its funds. Under the present method, the Board receives an appropriation from the State general fund, continues to receive $4,000 a year from each mile track, but no longer participates in the taxes imposed on the half mile tracks. Under this system, the money available to the Board to carry out its program amounts to $55,600. However, it is anticipated that the Board will require in the future a minimum of $125,000 in order that it may carry out a successful program.

As previously stated, the Commission recommends that one-fourth of the tax revenues received from the half-mile tracks should be allocated to the Maryland State Fair Board. In addition, the Commission recommends that the Maryland State Fair Board should continue to receive $4,000.00 a year from each of the mile tracks, but that it should no longer receive an appropriation from the State general fund.

Had these recommendations of the Commission been in effect during the year 1945, the State would have received a total of $461,970.92 in taxes from the four half mile tracks which held meetings. The result would have been, therefore, that the Maryland State Fair Board would have received $115,492.73. When this sum is added to the amount currently received by the Board from the mile tracks, it is clear that there would have been and will be ample funds on hand to carry out the legislative policy of sponsoring *bona fide* agricultural fairs and exhibits in this State.

In recommending that the Maryland State Fair Board should again receive a portion of the tax revenues produced by the half mile tracks, the Commission further recommends that the Enabling Act which established the Board be repealed and re-enacted in such a way that the Board will, for the future, be a completely independent administrative agency of the State government. In this connection, the Commission believes that the Board should have no connection with the Maryland Racing Commission or any other State administrative board now in existence. Only in this way will the Board be completely free to give impartial and required assistance to the organizations conducting *bona fide* agricultural fairs and exhibits in the State.

Baltimore County - Pimlico Special Tax

Baltimore County is the only local political sub-division which currently receives a portion of the tax revenues produced by racing. Before 1918 the Pimlico race track was located in Baltimore County. At that time, all racing conducted in the County was under the control of the Baltimore County Racing Commission, and Pimlico was required to pay a daily license tax of $3,000 a day to the County. Pursuant to the Act of 1918, Chapter 82, as supplemented by the Act of 1918, Ch. 264, Baltimore City annexed certain portions of Baltimore County, including the Pimlico race track. Under the terms of these Acts, it was provided, however, that racing in the annexed territory should continue to be subject to the jurisdiction of the Baltimore County Racing Commission, and that the license fee of $3,000 for each racing day which had theretofore been paid by Pimlico to the County, should continue to be paid to the County.

By the Act of 1920, Ch. 273, the Racing Commission of Baltimore County was abolished, and the Maryland Racing Commission was created. This Act provided, moreover, that the $3,000 license fee in question should continue to be taxed to Pimlico and should be distributed by the Maryland Racing Commission to the Treasurer of Baltimore County for certain specific purposes. In 1938, the Maryland Jockey Club attempted to restrain the Maryland Racing Commission from collecting the tax. However, the Court of Appeals, in *Maryland Racing Commission v. Maryland Jockey Club*, 176 Md.

82 (1938), held that the exaction was a State tax, and that the State could determine what should be done with the proceeds thereof, so long as no unlawful distribution was made.

As previously stated, the Commission believes that insofar as possible all race tracks in Maryland should be taxed on the same basis. No logical reason exists why Pimlico should be required to pay $9,000 a day ($6,000 to the State and $3,000 to Baltimore County) for the privilege of conducting a race meet, when Laurel, for example, is required to pay only $6,000 a day. The Commission recommends, therefore, that the $3,000 daily license fee paid by Pimlico and allocated to Baltimore County be abolished.

The Commission recommends that the Legislature repeal the statutory authority which imposes the $3,000.00 per day license on Pimlico for Baltimore County, and that Section 8 of Article 78-B of the Annotated Code be repealed and reenacted to eliminate all references to Baltimore County and the local acts contained therein.

Effect of Proposed Allocation

It is impossible to state dogmatically at the present time how much money will be available for distribution in the future to the local political sub-divisions if the recommendations made in this report are adopted. The following tables are based on the fiscal year ended June 30, 1946.

Table No. 4 shows the effect of the revisions proposed on revenue from the mile tracks.

Table No. 5 shows the effect of the revisions proposed on revenue from the half-mile tracks.

Table No. 6 shows the effect of all the recommendations applied to all the tracks with allocations to the counties, incorporated towns and Baltimore City.

See also Graphs C and D.

Table No. 4

Summary of Estimated Effect of One-Mile Race Track Revenue And Allocation Revisions Proposed as Applied to the Fiscal Year Ended June 30, 1946.

	1946 Actual	Revision Proposed
Revenue:		
License fee	$ 720,000.00	$ 120,000.00
Tax on wagers	2,630,044.28	5,260,088.56
Tax on net revenue	546,629.11	
Breakage	988,699.20	988,699.20
Registrations	3,482.00	3,482.00
Total	$ 4,888,854.59	$ 6,372,269.76
Allocation of Revenue:		
State General Fund	$ 4,888,854.59	$ 3,186,134.88
Baltimore City		1,502,933.42
Counties and Incorporated Towns:		
Allegany		152,152.99
Anne Arundel		119,617.12
Baltimore (in lieu of $3,000 per day from Pimlico)		272,604.58
Calvert		18,341.01
Caroline		30,700.71
Carroll		68,322.15
Cecil		46,197.14
Charles		30,810.92
Dorchester		48,994.47
Frederick		100,263.21
Garrett		38,454.17
Harford		61,334.94
Howard		30,046.42
Kent		23,556.05
Montgomery		146,797.99
Prince George's		156,556.29
Queen Anne's		25,324.72
St. Mary's		25,587.13
Somerset		36,676.75
Talbot		32,861.25
Washington		120,427.11
Wicomico		60,407.74
Worcester		37,166.60
Total	$ 4,888,854.59	$ 6,372,269.76

Table No. 5

Summary of Estimated Effect of Half-Mile Race Track Revenue And Allocation Revisions Proposed as Applied to the Fiscal Year Ended June 30, 1946.

	1946 Actual	Revision Proposed
Revenue:		
Tax on wagers	$ 190,985.46	$ 461,970.92
Tax on net revenue	26,993.61	
Total	$ 217,979.07	$ 461,970.92
Allocation of Revenue:		
State General Fund	$ 217,979.07	$ 230,985.46
Maryland State Fair Board		115,492.73
Baltimore City		54,479.14
Counties and Incorporated Towns:		
Allegany		5,515.32
Anne Arundel		4,335.95
Baltimore		9,881.52
Calvert		664.83
Caroline		1,112.86
Carroll		2,476.58
Cecil		1,674.58
Charles		1,116.85
Dorchester		1,775.98
Frederick		3,634.39
Garrett		1,393.91
Harford		2,223.30
Howard		1,089.14
Kent		853.87
Montgomery		5,321.21
Prince George's		5,674.94
Queen Anne's		917.98
St. Mary's		927.50
Somerset		1,329.48
Talbot		1,191.17
Washington		4,365.31
Wicomico		2,189.69
Worcester		1,347.23
Total	$ 217,979.07	$ 461,970.92

Table No. 6

Summary of Estimated Effect of Race Track Revenue and Allocation Revisions Proposed as Applied to the Fiscal Year Ended June 30, 1946.

	1946 Actual	Revision Proposed
Revenue:		
One mile race tracks:		
License fee	$ 720,000.00	$ 120,000.00
Tax on wagers	2,630,044.28	5,260,088.56
Tax on net revenue	546,629.11	
Breakage	988,699.20	988,699.20
Registrations	3,482.00	3,482.00
Total one mile race tracks	$ 4,888,854.59	$ 6,372,269.76
Half-mile race tracks:		
Tax on wagers	190,985.46	461,970.92
Tax on net revenue	26,993.61	
Total half-mile race tracks	$ 217,979.07	$ 461,970.92
Total	$ 5,106,833.66	$ 6,834,240.68
Allocation of Revenue:		
State General Fund	$ 5,106,833.66	$ 3,417,120.34
Maryland State Fair Board		115,492.73
Baltimore City		1,557,412.56
Allegany County:		
Barton		1,415.83
Cumberland		71,576.44
Frostburg		13,884.56
Lonaconing		4,403.39
Luke		1,791.09
Midland		1,695.01
Allegany County (Includes Westernport)		62,901.99
Total		$ 157,668.31

Table No. 6 (cont'd.)

	1946 Actual	1946 Revision Proposed
Anne Arundel County:		
Annapolis		23,692.03
Arundel-on-the-Bay		14.50
Anne Arundel County (Includes Highland Beach)		100,246.54
Total		$ 123,953.07
Baltimore County		282,486.10
Calvert County:		
Chesapeake Beach		590.99
North Beach		445.96
Calvert County (Includes Solomons)		17,968.89
Total		$ 19,005.84
Allocation of Revenue:		
Caroline County:		
Denton		$ 2,849.79
Federalsburg		3,168.85
Goldsboro		357.13
Greensboro		1,336.06
Hillsboro		328.12
Marydel		141.40
Preston		668.94
Ridgely		1,667.81
Caroline County (Includes Bridgeton)		21,295.47
Total		$ 31,813.57

Table No. 6 (cont'd.)

	1946 Actual	Revision Proposed
Carroll County:		
Hampstead		$ 1,203.73
Manchester		1,383.20
Mt. Airy (Not determined —Included under County)		—
New Windsor		958.99
Sykesville		1,461.15
Taneytown		2,189.91
Union Bridge		1,506.47
Westminster		8,505.85
Carroll County (Includes Mt. Airy)		53,589.43
Total		$ 70,798.73
Cecil County:		
Charlestown		$ 556.54
Chesapeake City		1,983.25
Elkton		6,377.58
North East		2,407.45
Perryville		1,321.56
Port Deposit		1,600.74
Rising Sun		958.99
Cecil County (Includes Cecilton)		32,665.61
Total		$ 47,871.72
Charles County:		
Indian Head		$ 2,001.38
La Plata		884.67
Charles County		29,041.72
Total		$ 31,927.77

Table No. 6 (cont'd.)

	1946 Actual	1946 Revision Proposed
Allocation of Revenue:		
Dorchester County:		
Cambridge		$ 18,313.33
East New Market		484.03
Secretary		623.62
Vienna		697.94
Dorchester County (Includes Church Creek and Hurlock)		30,651.53
Total		$ 50,770.45
Frederick County:		
Brunswick		$ 6,990.32
Emmitsburg		2,559.73
Frederick		28,646.53
Middletown		1,520.97
Mt. Airy (Not Determined—Included in County)		—
Myersville		561.98
New Market		652.62
Thurmont		2,369.38
Walkersville		1,325.19
Woodsboro		754.14
Frederick County (Includes Mt. Airy, Burkittsville, Jefferson and Point of Rocks)		58,516.74
Total		$ 103,897.60

Table No. 6 (cont'd.)

	1946 Actual	Revision Proposed
Garrett County:		
Accident		$ 427.83
Deer Park		596.43
Friendsville		1,031.51
Grantsville		842.97
Kitzmillersville		1,577.17
Lock Lynn Heights		614.55
Mountain Lake Park		998.88
Oakland		2,876.98
Garrett County		30,881.76
Total		$ 39,848.08
Harford County:		
Aberdeen		$ 2,764.58
Bel Air		3,417.21
Havre de Grace		9,004.39
Harford County		48,372.06
Total		$ 63,558.24
Howard County		$ 31,135.56
Allocation of Revenue:		
Kent County:		
Betterton		$ 400.64
Chestertown		5,003.44
Galena		453.21
Millington		556.54
Rock Hall		1,415.83
Kent County		16,580.26
Total		$ 24,409.92

Table No. 6 (cont'd.)

	1946 Actual	1946 Revision Proposed
Montgomery County:		
Barnesville		$ 219.35
Gaithersburg		1,850.91
Garrett Park		736.01
Glen Echo		716.07
Kensington		1,687.76
Laytonsville		230.23
Poolesville		369.82
Rockville		3,710.89
Somerset		723.32
Takoma Park (Not determined—Included under County)		
Washington Grove		290.05
Special Taxing Areas (Not determined—Included under County)		
Montgomery County (Includes Takoma Park, special Taxing Areas and Brookesville)		141,584.79
Total		$ 152,119.20

Table No. 6 (cont'd.)

	1946 Actual	Revision Proposed
Prince George's County:		
Berwyn Heights		$ 821.22
Bladensburg		2,211.67
Bowie		1,390.45
Brentwood		4,410.64
Capitol Heights		3,690.95
Cheverly		1,805.59
Cottage City		1,892.61
District Heights		710.63
Edmonston		1,693.19
Fairmont Heights		2,521.66
Greenbelt		5,132.16
Hyattsville		11,919.44
Laurel		5,117.65
Mt. Rainier		8,756.03
North Brentwood		1,490.16
Riverdale		4,223.92
Seat Pleasant		2,815.34
Takoma Park (not determined—Included under County)		
University Park		1,591.68
Upper Marlboro		1,024.26
Prince George's County (Includes Boulevard Heights, Colmar Manor, Eagle Harbor, Glenarden, Piscataway, and Takoma Park)		99,011.98
Total		$ 162,231.23
Queen Anne's County:		
Centreville		$ 2,068.45
Church Hill		572.86
Queenstown		498.53
Sudlersville		529.35
Queen Anne's County		22,573.51
Total		$ 26,242.70

Table No. 6 (cont'd.)

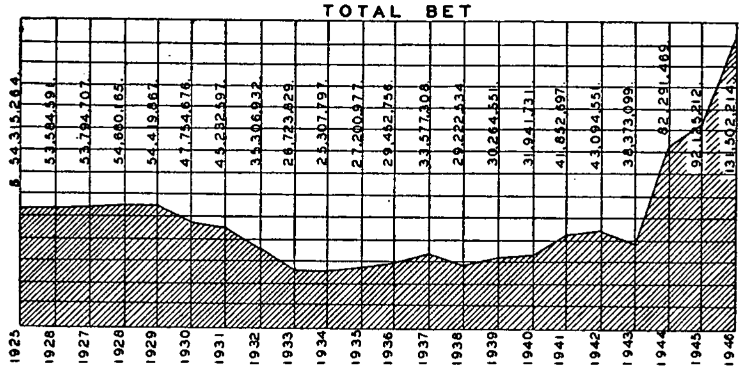
	1946 Actual	1946 Revision Proposed
St. Mary's County:		
Leonardtown		$ 1,210.98
St. Mary's County		25,303.65
Total		$ 26,514.63
Somerset County:		
Crisfield		$ 7,084.59
Princess Anne		1,707.70
Somerset County		29,213.94
Total		$ 38,006.23
Talbot County:		
Easton		$ 8,208.55
Oxford		1,497.41
St. Michael's		2,373.01
Trappe		536.60
Talbot County		21,436.85
Total		$ 34,052.42
Washington County:		
Boonsboro		$ 1,700.45
Clearspring		906.42
Funkstown		1,446.65
Hagerstown		58,901.05
Hancock		1,704.07
Keedysville		732.39
Sharpsburg		1,511.91
Smithsburg		1,122.15
Williamsport		3,212.36
Washington County		53,554.97
Total		$ 124,792.42

Table No. 6 (cont'd.)

	1946 Actual	1946 Revision Proposed
Allocation of Revenue:		
Wicomico County:		
Delmar		$ 2,146.40
Hebron		1,457.52
Mardela Springs		757.77
Salisbury		24,134.37
Sharptown		1,183.79
Willards		516.66
Wicomico County		32,400.92
Total		$ 62,597.43
Worcester County:		
Berlin		$ 2,601.43
Ocean City		1,907.11
Pocomoke City		4,965.37
Snow Hill		3,491.53
Worcester County		25,548.39
Total		$ 38,513.83
Grand Total	$ 5,106,833.66	$ 6,834,240.68

Graph C

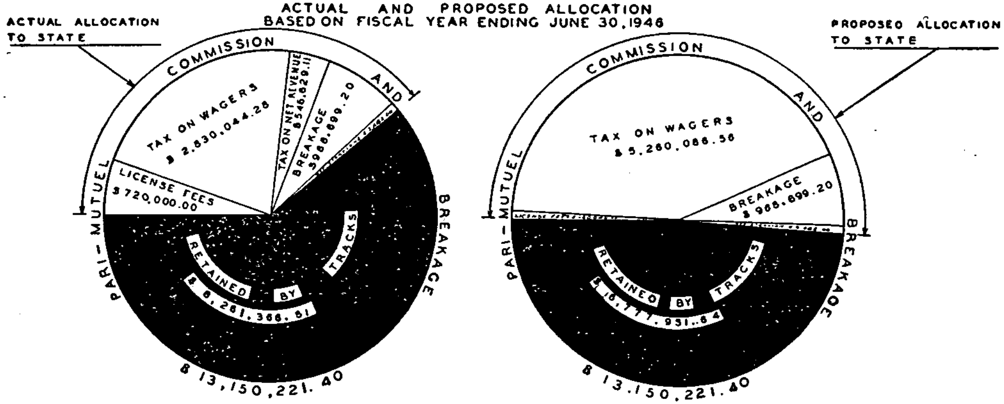
BETTING AND REVENUE
(EXCLUSIVE OF REVENUE TO TRACKS FROM ADMISSIONS, CONCESSIONS, ETC.)
ONE MILE TRACKS



1925—1945
CALENDAR YEARS

1946 — FISCAL YEAR

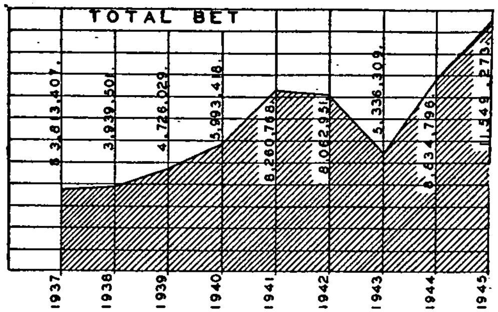
REVENUE FROM PARI-MUTUELS
ACTUAL AND PROPOSED ALLOCATION
BASED ON FISCAL YEAR ENDING JUNE 30, 1946



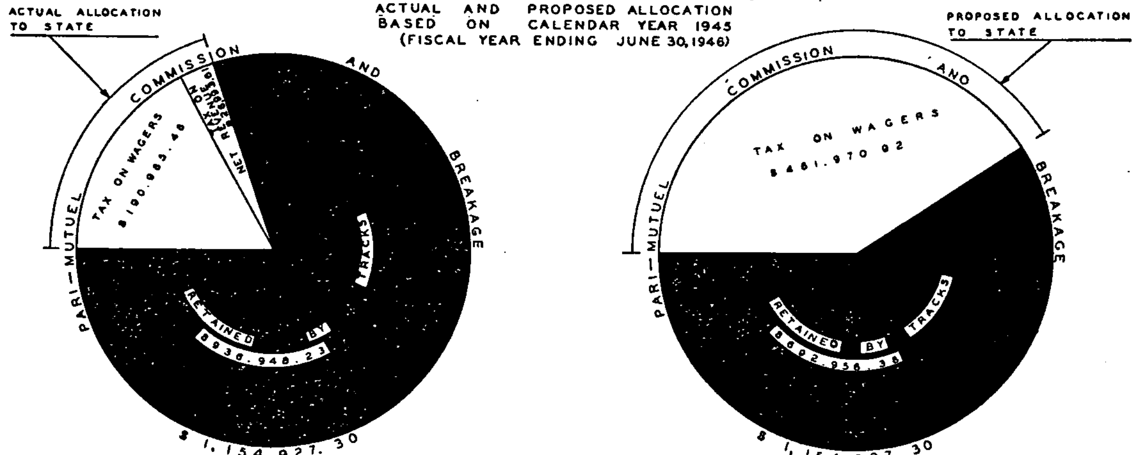
Graph D

BETTING AND REVENUE
(EXCLUSIVE OF REVENUE TO TRACKS FROM ADMISSIONS, CONCESSIONS, ETC.)

ONE-HALF MILE TRACKS



REVENUE FROM PARI-MUTUELS
ACTUAL AND PROPOSED ALLOCATION
BASED ON CALENDAR YEAR 1945
(FISCAL YEAR ENDING JUNE 30, 1946)



GASOLINE TAXES AND MOTOR VEHICLE REVENUE.

These taxes, which may be collectively referred to as "highway user taxes", form an important part of the revenue of the State and its sub-divisions. In 1945 the gross revenue from these taxes was approximately $16,250,000.00. After certain deductions are made, Baltimore City participates in the 2c gasoline taxes and 1½c lateral roads tax, and the larger portion of the motor vehicle revenue, to the extent of 30%. In the case of the ½c grade crossing tax and the remainder of the motor vehicle revenue from fines and forfeitures, Baltimore City participates, after certain deductions, to the extent of 20%. In 1945, the share of these various taxes paid directly to Baltimore City was approximately $3,500,000.00. In 1941, a more normal year, when the total gross highway user taxes was almost $20,000,000.00, Baltimore's share was approximately $4,750,000.00. The counties participate only in the proceeds of the lateral roads tax, but they receive 70% of the proceeds of that tax. In 1945, approximately $2,500,000.00 was distributed to the counties from this source. In 1941, the counties' share was slightly over $3,300,000.00. The net remainder of the highway user taxes, which, in 1945, amounted to approximately $6,200,000.00 and, in 1941, to approximately $8,500,000.00, is paid to the State Roads Commission for the use of the State roads system.

The Commission has considered, on this general subject, the Reports of previous State Commissions, the Maryland State Roads Commission, and considerable other data. At our request, the State Roads Commission has made detailed studies along certain lines which we suggested. The Superintendent of the Maryland State Police, has made a functional study of the work of the State Police. We have found invaluable material in several pamphlets published by the University of Maryland; one entitled "County Road Use and Finance in Maryland", by Wm. Paul Walker, one of our consultants, published in December, 1942, and one entitled "Postwar Revenues for Rural Public Services in Maryland", by

Messrs. Walker and DeVault, published in January, 1946. We also studied the report of the State-wide Highway Planning Survey of the Maryland State Roads Commission, submitted in December, 1940, as well as other records and data of the State Roads Commission and of the Mayor and City Council of Baltimore.

It is not within the province of the Commission to submit recommendations as to the needs of the State of Maryland, its counties and cities for highways, roads and streets. Our function is to consider only so much of the financial aspect of the general problem as is involved in the distribution of the highway user revenue between the State and its sub-divisions. But the Commission is not working in a mental vacuum. As a part of the background of our considerations on the subject, there looms the fact, supported by all the authorities and reports we have consulted and by our own observations, that, for various reasons, including the effect of the war, the rehabilitation of our highways, roads and streets is one of the major physical and financial problems with which the State and its sub-divisions will be confronted in the postwar era.

It has seemed to the Commission that the problem of the distribution of the highway user taxes involves three phases which come within the province of the Commission's deliberations.

First, there is the matter of the deductions and refunds which are made from the highway user taxes before distribution to the political sub-divisions. In 1945, these deductions and refunds totalled more than $4,000,000.00. In 1941, they totalled in excess of $3,300,000.00. It is to be noted that, although the gross revenue from the highway user taxes was almost 25% larger in 1941 than in 1945, conversely, deductions and refunds from the fund were almost 25% larger in 1945 than in 1941. It is apparent that the amount and nature of these deductions and refunds vitally affect the extent of participation of the sub-divisions in the taxes, as well as the ability of the State Roads Commission to maintain and develop an adequate State roads system.

Second, there is the matter of the relative sharing of Baltimore City and the counties in the net amount distributed between them.

Third, there is the matter of the distribution of 70% of the lateral roads tax between the counties.

Deductions and Refunds

The major deductions before distribution to political subdivisions and the State Roads Commission and their amounts for the two years 1941 and 1945, respectively, were as follows:

	1941	1945
Refunds and exemptions to non-taxable users of gasoline and unearned automobile registration fees	$ 986,921.08	$1,164,829.07
Expenses of Commissioner of Motor Vehicles	333,406.17	379,453.95
Expenses of Department of State Police	457,725.71	689,027.40
Dedicated to debt service on State Roads Commission Refunding Bonds (1921) and State Roads Commission Refunding and Improvement Bonds (1942), being 100% of certain truck license fees and franchise taxes and 100% of $.0014 of the 2¢ gasoline tax (*net*)	765,498.75	674,507.50

The refunds for the fiscal year ended 1945 are as follows:

	TOTAL	%
Agricultural	$ 535,062.55	48.64%
Boats	63,903.32	5.81%
Contractors commercial use	268,291.68	24.39%
Sales outside of state	53,808.36	4.89%
Aircraft	125,057.60	11.37%
Stoves	804.42	.07%
Light plants	3,830.75	.35%
Stationary engines	15,606.34	1.42%
U. S. Government Form 1094	12,166.55	1.10%
Volunteer Fire Co.	748.22	.07%
1¢ claims	20,776.13	1.89%
Total	$1,100,055.92	100.00%

The Commission has carefully considered these refunds. We are not recommending any change in any fiscal policy of the State, unless there appear to be strong and convincing reasons for doing so. In our opinion, no such reason exists with respect to the refunds.

The expense of the Commissioner of Motor Vehicles seems a proper deduction, like the smaller amount of the cost of collecting the gasoline tax by the Office of the State Comptroller. This expense is directly related to the source of the revenue itself, and arises primarily from the necessity of administering the collection of the revenue.

Whether or not the expenses of the Department of Maryland State Police should be a charge against the highway user funds, or whether this expense should be paid out of the State's general funds, is a more difficult question. Prior to 1935, the functions of the State Police were entirely or almost entirely confined to patrolling the State highways. In 1935, however, the Department was given full police power. Four counties were excepted, but these exceptions have been removed, so that the Department now has full police power in all twenty-three counties. With certain minor, unimportant exceptions, it does not carry on any functions in the City of Baltimore. While a few counties have their own local police forces, even in these counties the Department, on request, cooperates fully with the local constabularies.

In 1945, the expense of the Department deducted from the highway user funds was approximately $690,000.00. In 1946, however, the appropriation for the Department is approximately $950,000.00, and for 1947 $1,100,000.00. As in other State Departments and private businesses, there has been a substantial increase in the cost per employee per annum. Nothing in this discussion is to be taken in any way as even an inference of criticism of the splendid work of the Department, or as an intimation that any of its functions should be taken from it.

The respective numbers of arrests made by the Department for alleged violations of the Motor Vehicle Laws and the non-motor vehicle arrests made by the Department for the years 1941 to 1944, both inclusive, are as follows:

Fiscal Year	Motor Vehicle Arrests	Non-Motor Vehicle Arrests
7/1/43—6/30/44	17,589	3,235
10/1/42—6/30/43	12,196	2,410
10/1/41—9/30/42	21,755	1,642
10/1/41—9/30/41	27,814	970

With the end of the war, traffic has increased and, during the current year, motor vehicle arrests have arisen. In January, 1946, the number of motor vehicle arrests was 1,353. In April, 1946, the number was 2,501.

The Department estimates that approximately 75% of its non-motor vehicle arrests are represented by criminal arrest slips, which means, in substance, that the alleged crime was seen by the police officer in the course of his duties of patrolling the highways.

If there is any injustice to the City of Baltimore in the deduction of this item from the highway user funds, it consists in the fact that the Department does render general police service to all twenty-three counties and renders none to the City of Baltimore. On the other hand, studies which have been made strongly indicate that the residents of the City use the State roads to a greater extent than the residents of the counties use the city streets. All the residents of the City of Baltimore who own or operate passenger cars or trucks obtain a direct benefit from the State Police in their patrolling of the State highways. In the year 1945, the cost per registered car of the Maryland State Police was only $1.63, and for the average of the years from 1936 to 1945, both inclusive, was only $1.18.

Transfer of the expense of the Department of Maryland State Police from the highway user taxes to the State general funds would mean that the residents of Maryland who do not own or use motor vehicles would be charged with a proportionate share of the expense of maintaining the Department, by far the greatest expense of which is in connection with patrolling roads for the benefit of motor vehicles.

Under all the circumstances, the Commission believes that the expense of the State Police should be continued as a deduction from the highway user taxes. It believes that the arrangement may involve some injustice to the City of Baltimore, but is of the opinion that this can be corrected by an adjustment in the distribution of the highway user funds between the counties and the City.

The debt service is one of the largest items of deductions. Even more important than the present amount of that service is the possibility, if not the probability, that the State, at some time in the near future, may greatly increase the authority of the State Roads Commission to issue improvement bonds for the purpose of rehabilitating the Maryland highway system. The present outstanding bonds are a charge upon the highway user revenue. The debt service on them is a drain upon the funds for the maintenance and development of highways. The cost of maintenance, like all other costs, has steadily increased.

Moreover, the debt service is taken out of the 2¢ gasoline tax and the motor vehicle revenue, so that the debt service, in reality, is a deduction from the funds in which Baltimore City participates, but is not a deduction from the lateral roads tax in which the counties participate. It is a deduction, however, from State roads funds which would otherwise be available for roads in the counties.

It is not within our province nor are we in a position to make any recommendation as to whether or not the General Assembly of Maryland should authorize the issuance of any additional bonds by the State Roads Commission. If such a course is determined upon, there is the further question of timing, whether the work should be done in the present era of high costs or whether it should be reserved for some future time. The Commission does recommend, however, that if and when the General Assembly of Maryland, in the near-term future, authorizes the issuance of any additional bonds by the State Roads Commission, the entire cost of servicing such an additional debt be met by increases in the highway user taxes. This recommendation is made to safeguard funds available for the maintenance of the road system and to prevent further inequities in the drain of the debt service upon the City of Baltimore and its participation in the highway user funds.

A report of this nature would be unrealistic if it did not take into account probable future legislative action which might affect the division of revenues. We are not attempting to make any recommendation as to the way in which debt loans for highway construction and rehabilitation should be financed in any period not presently foreseeable, but we are strongly of the opinion that any such additional debt created within the next few years should be financed entirely by increases in the rates of the highway user taxes, rather than by further encroachment on the funds available for maintenance and for division between the counties and Baltimore.

Such increases in the rates of the highway user taxes should, in our opinion, be in the motor vehicle fees or in the gasoline tax or both.

The recommendation for increase in motor vehicle fees has been made by previous State commissions and by the State-wide Highway Planning Survey of the Maryland State Roads Commission in its 1940 Report. That Report shows that the average fee for passenger cars in Maryland in 1938 was $8.29. The average fee in Maryland for trucks, in the same year, was $11.20. In the neighboring States of Delaware, New Jersey, Pennsylvania, Virginia and West Virginia, for that year, the average fee for passenger cars was $11.17, or less than one and a half time the Maryland fee, and the average fee for trucks was $30.47, or more than two and a half times the Maryland charge. This Commission agrees with previous reports that have been made that the fees for trucks are entirely too low for the use which the trucks make of the State roads.

An increase in the gasoline tax has self-evident disadvantages. The State gasoline tax is already higher than the tax in several neighboring states and the District of Columbia. An increase in the rate, at this time, might, to a minor extent, divert the purchase of some gasoline, and would bear with particular heaviness upon gasoline dealers in counties contiguous to the District of Columbia and adjacent states. The differential, in such cases, might have to be absorbed by the gasoline companies themselves. It would, of course, be desirable that the neighboring states, the District and Maryland should act in concert in any such increase, and steps to secure such co-ordinated action might well be taken. But, in any case, Maryland has to solve its own problems, and the problem in this connection is that, even with the increased postwar use of motor vehicles, the present State highway user tax rates, particularly in view of increased costs, will not produce sufficient revenue for maintenance and rehabilitation.

The advantages of such an increase in rate are three-fold:

First, the tax falls directly upon the users of the roads.

Second, Maryland motorists would see for themselves the tangible benefits for which they were paying the increase.

Third, the increase would produce the substantial revenue which a program of rehabilitation through a bond issue would entail.

Disregarding any possible contribution by the Federal Government, it is estimated that an increase of ½¢ in the gasoline tax would service approximately $22,000,000.00 in bonds; a 1¢ increase would service $44,000,000.00.

Maryland motorists realize, through their own experience, the need for rehabilitation of Maryland roads. If the roads can only be rehabilitated through a bond issue, we believe that, despite the disadvantages, Maryland motorists would prefer that such a debt be serviced in the ways above suggested rather than through a decrease in the funds available for road maintenance.

The Commission does not feel qualified to make any recommendation as to how the proceeds of such bond issues as may be authorized should be allocated. It is of the opinion that the basic need is that of the arterial road system of Maryland, and that no part of any such bond issue, in the immediate future at least, should be used for purely local roads. The General Asembly of Maryland, in considering how the proceeds of any such bond issue are to be allocated, may, however, consider the possibility of some general plan of distribution between the State and the counties and Baltimore City.

If, for example, the gasoline tax were raised 1¢, to service a bond issue of approximately $44,000,000.00, without Federal aid, the State might keep one-half the proceeds and distribute the remainder to the counties and Baltimore City for the construction and rehabilitation of roads bearing direct relationship to the general State roads system. These are possibilities only, which would undoubtedly be canvassed by State, local and Federal authorities, if the Federal Government is to participate in such construction. Any consideration of the allocation of the funds should, in our opinion, not detract from the general principle, which we believe essential, that the entire cost of servicing any new bonds to be issued by the State Roads Commission within the next few years should be met entirely by increases in the highway user taxes.

Distribution Between Baltimore And The Counties.

The Commission recommends that the present distributive portions going to Baltimore City and to the counties, respectively, out of the highway user funds should not be changed, except that where the City participates its participation should be made a uniform 30%. This would mean only an increase in its participation in the ½¢ grade crossing tax, and a minor proportion of the motor vehicle revenue (fines and forfeitures) from 20% to 30%. This recommendation would mean additional revenue to the City of Baltimore on present figures of approximately $150,000.00.

The Commission, after a study of all the available evidence, and taking into account the adverse factors above pointed out, in so far as Baltimore is concerned, involved in charging the expenses of the State Police to the highway user funds, is of the opinion that a flat 30% participation in the funds in which Baltimore does participate would be fair and equitable. It may be pointed out in this connection that under the 1941 reenactment of the ½¢ per gallon gasoline tax (Article 56, Section 242, 1943 Supplement to the Annotated Code), the purposes for which that tax can be used have been substantially broadened. It may also be pointed out that this comparatively slight increased participation would not involve any diminution in the share of the lateral roads tax paid to the counties.

Under the present provisions of the law, before there is any distribution to the counties and Baltimore City from the motor vehicle revenue derived from fines and forfeitures, certain deductions are made. The entire expenses of the Traffic Court of Baltimore City are paid from the fund, and there is remitted to the County Commissioners of each county the sum of $2.00 for every case involving a charge of violation of the motor vehicle laws. The principle of these refunds seems entirely correct. The only question with respect thereto in the minds of the members of the Commission is whether or not the payment to the counties is sufficient under present conditions. That question cannot be determined without a detailed study of the revenues and expenses of the various counties concerning which the Commission has not been able to obtain sufficient information at this time. This phase of the division of motor vehicle revenues may well be reviewed when the uniform system of accounting recommended in another portion of this report has been put in operation.

Table No. 7 shows the effect of this recommendation.

Table No. 7

Summary of Estimated Effect of ½¢ Gasoline Tax Revenue and Allocation Revisions Proposed as applied to the Fiscal Years Ended June 30, 1946 and 1945.

	1946		1945	
	Actual	Revision Proposed	Actual	Revision Proposed
Revenue:				
Gross receipts	$ 1,610,457.00		$ 1,338,215.96	
Less—Refunds	123,152.99		134,909.99	
Net	$ 1,487,304.01		$ 1,203,305.97	
Allocation of Revenue:				
State Comptroller	$ 3,461.82	$ 3,461.82	$ 3,421.41	$ 3,421.41
State Roads Commission	1,187,073.75	1,038,689.53	959,907.67	839,919.19
Baltimore City	296,768.44	445,152.66	239,976.89	359,965.37
Total	$ 1,487,304.01	$ 1,487,304.01	$ 1,203,305.97	$ 1,203,305.97

Distribution Of 70% Of Proceeds Of Lateral Roads Tax Between The Counties.

The distribution of this fund between the counties is still based upon the total mileage of State and county roads in each county which existed in 1921. The presumption that such a twenty-five year old standard is no longer in accordance with present conditions is borne out by the facts. The total mileage of some counties has increased proportionately much more than in other counties. In some cases, new roads have been built by the counties at their own expense, as a result of bond issues or out of their local property taxes. The population of some counties has practically doubled. In others, it has remained stationary or almost stationary. In 1940, State allocations to the various counties ranged from 48¢ to $13.00 for each highway user tax dollar produced by traffic over the county systems. Gasoline tax allocations to the counties were equivalent to amounts ranging from $17.00 to $92.00 per dwelling unit served by county roads. The amount of gasoline tax allocated varied among the counties per $1,000.00 of taxable base from $1.03 to $9.61.

The respective needs of the counties, in so far as their roads are concerned, have also greatly changed. For example, on January 1, 1945, only 3% of the road mileage of Baltimore County and 17% of Anne Arundel and Charles Counties were unsurfaced. On the other hand, at that time, Worcester County had approximately 90% of unsurfaced mileage.

In the opinion of the Commission, the present system of distribution of this fund is unjust and inequitable. Before making its recommendations for changes in this system, the Commission considered a number of alternatives, but it is of the opinion that the system of distribution should be kept as simple and clear as possible.

The Commission recommends that the fund in question should be distributed between the twenty-three counties, so that each county receives an amount thereof in the proportion which the mileage of county roads in that county bears to the total mileage of county roads in the State. The Commission believes that, in such a computation, State roads which happen to be in any county should be excluded. These roads are maintained by the State Roads Commission, whereas the fund in question is meant for the benefit of the purely county roads. The Commission further recommends that a survey of the number of miles of county roads should be made by the State Roads Commission, and that a re-survey should be made by that body periodically, at intervals not longer than five years and at shorter intervals, if practical.

The Commission has devoted considerable time to consideration of the situation of the incorporated towns and other urban areas in the various counties with respect to the distribution of this fund. The situation varies greatly as to such towns and areas. In some cases, certain urban streets are considered as part of the county roads system; in others they are not. Special Acts of the Legislature have been passed with respect to the situation in certain counties, but there seems to be no uniform method of treatment. The fairest principle seems to be that, if such urban streets are maintained by the county, they should continue to be treated as county roads for the purpose of participation in the distribution of this fund. If they are not maintained by the county but by the incorporated town or urban area in which they are located, recognition should be given to that fact both in the computation of the base mileage of the county and in the distribution of the funds which that county receives. In some cases it may be that, with the approval of the State Roads Commission, certain of these urban streets should be added to the county roads system for the purposes of the computation for distribution of the fund.

The Commission recommends that the situation with respect to such urban streets should be reviewed by the State Roads Commission in conjunction with the county and local authorities, and that some uniform method of treatment of these streets and urban roads be jointly worked out which will not unduly load the basis of participation for any particular counties, but which will assure fair and equitable treatment of such streets and roads whether the maintenance be a charge upon the counties or whether maintenance be continued by and proportionate payment made to the towns and urban areas. The general principle to be applied in this connection, we believe, is that the basis of distribution of funds between the counties should be the mileage of county roads plus recognized urban streets.

FUNDS FOR EDUCATION.

THE PROBLEM.

The Commission has made a study of the financial needs of public education in the State and the method by which the State contributes to the support of the public school system. In this connection the first problem confronting the Commission was whether State school funds were being distributed under a plan which was equitable to the counties and to Baltimore City. After careful consideration of this subject, the Commission concluded that the present method of distribution produces inequitable results.

The Commission then turned its attention to the problem of creating a plan which would produce an equitable distribution of school funds and which could be put into operation without destroying the efficiency of the school system in any political sub-division of the State. In formulating the new system, the Commission also faced the problem of simplifying the methods by which State funds for education would be distributed to the local political subdivisions. The section of the report which follows presents in some detail the general background of these problems and the conclusions and recommendations of the Commission with respect to them.

THE BACKGROUND.

Public education in Maryland is financed by local taxation, State aid and Federal aid, the last named amounting to less than one per cent of the total spent. State aid towards school current expenses, excluding interest payments on bonds issues; varies from thirteen per cent in Baltimore City and twenty-one per cent in the financially richest county to over seventy-two per cent in the financially poorest county in the State.

Funds raised locally for schools are derived almost entirely from the property tax. Of the total of $32,500,000 (excluding proceeds of bond issues) spent by the local units on public education in 1945-46, the counties and Baltimore City contributed approximately $23,000,000 (excluding proceeds of bond issues).

Under existing law, no local political sub-division may levy less than thirty cents on each $100 of assessed property for the support of its schools, and any local unit qualifying for aid from the State equalization fund must levy fifty-six cents.

The rate of taxation for 1945-46 for all school purposes, including debt service and capital outlay, varies in the local units from 56¢ to $1.11 on the $100 assessed valuation. Dividing the total assessment in each local unit taxable at the full rate by the number of children to be educated in that political sub-division, it is found that "back" of each child in the poorest local unit is $3,363 of assessable property, whereas in the wealthiest political sub-division there is $13,373 worth of property for each child. (See Graph E).

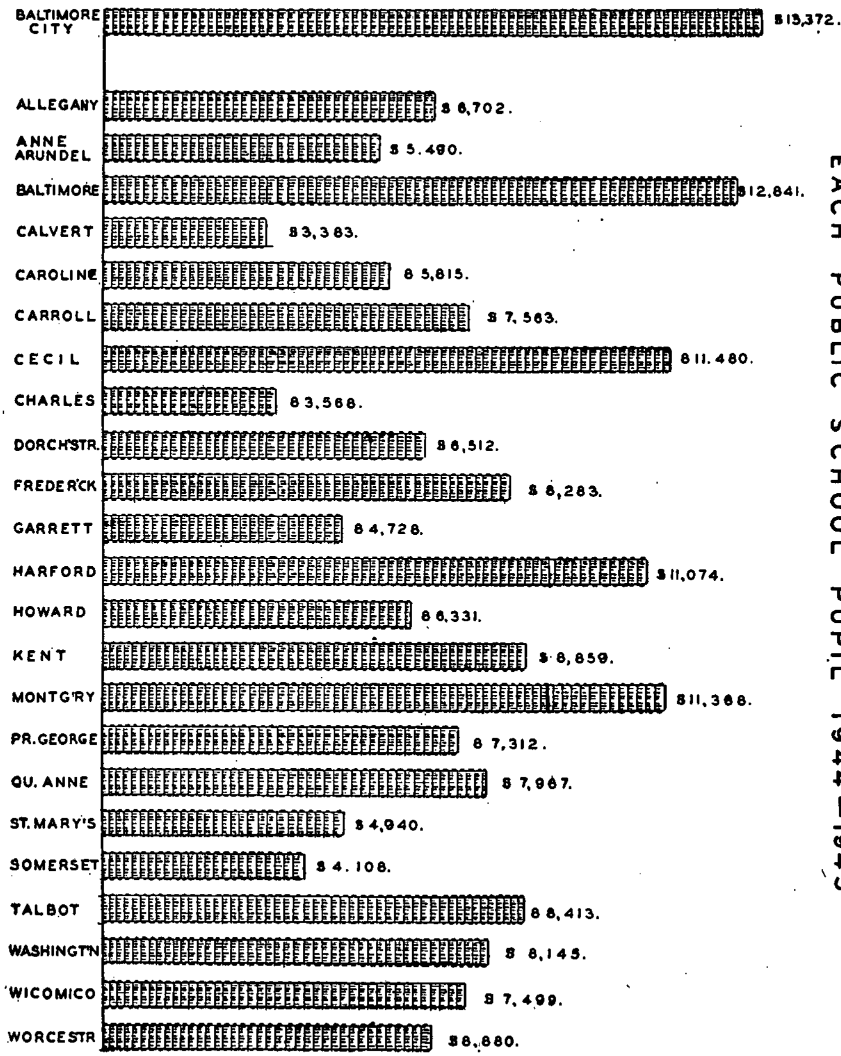
Without some plan of equitable and variable State aid for schools, it should be obvious that there would be no equality in the quantity or quality of education offered to all the children in Maryland. The Commission subscribes to the theory that public education is a State responsibility and the program of education for every child should be adequate.

Acting upon the principle of State responsibility, the State for many years has aided the local sub-divisions in paying for the cost of their schools. Roughly, financial assistance to schools is given in two forms: (1) through funds appropiated to all local sub-divisions generally and distributed by various methods to all counties and to Baltimore City (hereinafter referred to as Basic State Aid) and, (2) through an equalization fund which recognizes the relative ability of the various political units to provide adequate and somewhat comparable facilities to their children.

A brief discussion of the school funds follows:

Graph E

ASSESSABLE WEALTH BACK OF EACH PUBLIC SCHOOL PUPIL 1944—1945



Basic State Aid.

Basic State Aid consists of several funds which have been established in various sessions of the Legislature over a period of nearly seventy-five years. The Commission has concluded that some of these funds, while worthy in principle, are antiquated with respect to the methods of distribution which they employ.

The various accounts which are included in Basic State Aid are as follows:

1. High school aid—distributed on the same basis (so much per principal and teacher) to the counties and to Baltimore City except that the latter has a limit of $6,000 per school against $5,000 in the counties.

2. Part-payment of salaries of superintendents, supervisors, and attendance officers (two-thirds of the minimum salary of superintendents and elementary school supervisors; $1,200 for attendance officers.)

3. Textbooks and materials;—distributed to all counties and to Baltimore City on exactly the same basis;—pupil enrollment.

4. Actual census of school children between the ages of six and fourteen years living in the local political sub-division.

5. Aggregate days of attendance; — distributed to all counties and Baltimore City on exactly the same basis;—aggregate days of attendance of elementary school pupils.

6. Aid of $150 per classroom unit;—distributed to all of the counties and to Baltimore City on exactly the same basis —a fixed ratio of pupils to teachers.

7. Tax reduction fund;—distributed only to the counties on the basis of the Federal Census of 1940.

The Equalization Fund.

An explanation of the equalization fund may conveniently begin by defining the State minimum program of education. This program has been established by various State laws which have been passed from time to time by the Legislature.

The State law prescribes a minimum salary schedule for principals and teachers. In order to pay their salaries and provide the necessary amounts for administration, supervision, books, materials, etc., a minimum school fund is required. The number of teachers for which the school is entitled to receive State aid is determined in accordance with the provisions of law. The amount for these purposes, other than salaries, is determined by dividing the minimum salary budget by .80, since the salaries require on the average 80 cents out of each school current expense dollar exclusive of transportation. To the amount thus calculated is added the entire cost of transporting pupils to elementary schools and at least one-half the cost of transporting pupils to high schools. The grand total for salaries, other purposes, and transportation becomes the minimum State program for school current expenses.

As pointed out above, funds for education in Maryland are provided through a program of Basic State Aid and by means of local taxes imposed upon property. In the majority of the local political sub-divisions, however, these two sources of revenue do not supply sufficient funds to meet the State minimum program. In cases in which such a deficiency exists, it is supplied by the equalization fund.

In essence, the equalization fund operates in the following way: Each county, to qualify for assistance in financing public education through the equalization fund, must levy a minimum property tax at the rate of 56¢ on each $100 of assessable value. The revenue produced by this tax is added to the Basic State Aid. If the resulting sum is not sufficient to pay for the State minimum program, the difference is supplied to the local political sub-divisions by means of the State equalization fund. The following example illustrates the plan:

Total cost of State Minimum Program in County as required by law		$ 200,000
Amount realized from:		
56¢ on county tax rate	$ 100,000	
Basic State Aid	50,000	150,000
Balance needed and furnished through the equalization fund		$ 50,000

In 1945-46, 20 of the 23 counties shared in the equalization fund. It is interesting to note that, although taxable property assessed at the full rate in the State amounts to $2,859,000,000.00, only $877,000,000.00, or 30.7% of this amount, is found in the Equalization Fund Counties. On the other hand, the total enrollment of children in the day public schools of the State amounts to 299,169, of which 132,370 or 44.2% are in the Equalization Fund Counties.

The percentage of the total current[1] operating cost of public education in the State in 1945-46 paid by the counties and Baltimore City is 71; the percentage of Basic State Aid is 17.8; and the percentage of equalization fund is 10.6. The small remainder, less than 1 per cent, comes from Federal funds.

The equalization fund is not static; the amounts distributed under it vary according to the needs of the counties. As the State's educational program expands, the amounts to be distributed under the equalization fund may be expected to increase substantially, unless the counties which share in the fund are then receiving additional assistance from the State in other ways.

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[1] This discussion does not include reference to State contributions to the Teachers' Retirement Systems of the State and Baltimore City, which amount to approximately $1,600,000 annually; to special appropriations to the State Department of Education, for its operation and for conduct of certain special educational activities for the handicapped and adults in the counties, the total of which is not large; and to the cost of operating the four State Teachers Colleges at an annual cost of approximately $500,000. This report is concerned primarily with the distribution of State funds to the counties and Baltimore City.

Graph F shows how Basic State Aid and the equalization fund have been distributed to the counties and to Baltimore City during the past fiscal year.

GENERAL CONSIDERATIONS.

Although the Commission is charged with the duty of recommending a more equitable distribution of funds to Baltimore City and the counties, it is impossible to arrive at this objective without discussing educational policy in the State. A study of education in Maryland has led the Commission to the conclusion that differences in educational opportunities do exist between the local political sub-divisions. This fact is due chiefly to the lack of local financial ability to provide an educational program beyond the State minimum. Educational opportunities should not exist at a "dead level" in even the poorest local political units of the State.

Public education is a State function and it is the State's responsibility to do all within its power to improve educational standards wherever possible. Progress has already been made. Smaller classes, the twelve-year program, increase in teachers' salaries, and the equalization of salaries are all steps in the right direction.

The State minimum program must be expanded. A comprehensive program of educational development should be projected over a period of years, and the State should proceed gradually, but as rapidly as possible, to the realization of this program.

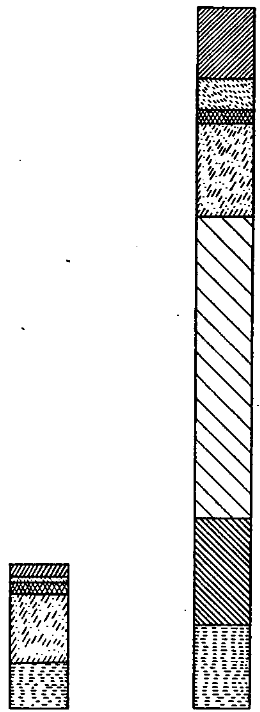
The State, by financial aid, should encourage the counties and Baltimore City to improve their educational programs. Several counties will not be able to raise their educational standards appreciably above the present State minimum unless considerable State aid is forthcoming. At the same time, several of the large counties and Baltimore City will find it difficult to provide further financial aid because their real estate is already burdened with a high assessment and a high rate of taxation. To improve the present educational system by additional local taxation will add to the burden now carried by real estate.

DISTRIBUTION OF STATE PUBLIC SCHOOL FUNDS — Graph F

FISCAL YEAR ENDING JUNE 30, 1946

LEGEND:

	TOTAL COUNTIES	BALTIMORE CITY
HIGH SCHOOL AID	$ 719,649.75	$150,157.50
PART PAYMENT OF SALARIES	206,976.78	24,626.67
BOOKS AND MATERIALS	155,357.52	94,642.48
CENSUS AND ATTENDANCE	1,097,306.41	702,693.59
EQUALIZATION FUND	3,432,357.42	DOES NOT PARTICIPATE
REDUCTION OF COUNTY TAXATION	1,250,000.00	DOES NOT PARTICIPATE
$150 PER CLASSROOM	843,190.50	469,402.50
TOTALS	$ 7,704,838.38	$1,441,522.74



BALTIMORE CITY $ 1,441,522.74.

TOTAL COUNTIES $ 7,704,838.38.

ALLEGANY	$ 780,797.68
ANNE ARUNDEL	886,103.87
BALTIMORE	807,648.01
CALVERT	158,733.58
CAROLINE	202,184.54
CARROLL	401,025.54
CECIL	130,589.84
CHARLES	283,778.10
DORCHESTER	274,845.58
FREDERICK	398,431.98
GARRETT	339,987.54
HARFORD	207,837.03
HOWARD	202,643.85
KENT	122,277.77
MONTGOMERY	382,133.23
PRINCE GEORGE	815,840.72
QUEEN ANNE	158,286.33
SAINT MARY'S	180,809.74
SOMERSET	230,569.32
TALBOT	144,539.07
WASHINGTON	545,013.20
WICOMICO	288,284.97
WORCESTER	211,520.91
TOTAL	$ 7,704,838.38

Some criticism may be directed against the use of the property tax as a means of sharing the cost of education. Inequities in assessments are hereafter discussed in this report. The property tax is not the true measure of wealth of any local unit. There are other criteria to be taken into account in measuring the fiscal capacity of a local unit. Real estate values, bank deposits, security holdings, income, and many other factors should be taken into consideration. In addition, statistical data, not available now, but which should be available under the recommendations heretofore made, would provide ample data for consideration at some time in the future of the entire problem of financing education in Maryland.

Inequities in the Existing System.

In conducting its study of the method now used to finance public education in Maryland, the Commission has been impressed by certain specific inequalities inherent in the present system. The fund granting aid to high schools prescribes a $6,000 per school limit in the City against $5,000 per school in the counties without regard to size of school or number of pupils enrolled.

Another inequality exists by reason of the school census fund. This results from the fact that the fund is distributed on the basis of the number of children (ages 6-14 years) who live in each local political sub-division without taking into consideration the number of children who attend private schools. Inequities also exist with respect to the fund used for part payment of the salaries of superintendents, supervisors and attendance officers. In this case, Baltimore City and the larger counties are treated unfairly since there is a legal limit on the number of supervisors and attendance officers who may be employed regardless of the population of the local political sub-division.

The inequities discussed above, however, are insignificant when they are compared with the tax reduction fund. The origin of this fund is to be found in part in the financial exigencies of Baltimore City in the late depression and in part in an effort to relieve the counties of a portion of their tax burden on real estate.

In 1933, Baltimore City had spent approximately $12,-000,000 for the purposes of relief. To relieve the City of this obligation and to grant tax relief to the counties, the State agreed to assume the indebtedness of the City and to pay to the counties an equivalent sum through the medium of the tax reduction fund. The same purpose, theoretically, could have been accomplished by giving the funds to the counties outright without earmarking them. However, allocating the additional money to the school fund and lowering the equalizing point guaranteed tax reduction, which was the desired end-product. Accordingly, there was allocated to the tax reduction fund $1,500,000 for two years, the amount being reduced in 1936 and all subsequent years to $1,250,000.

Theoretically, both the counties and Baltimore City received tax reduction benefits. In the case of the counties, the funds were appropriated to schools; in the City to welfare. However, the fact remains that the plan has produced a glaring inequity to Baltimore City with respect to the amounts involved. This inequity has resulted because the total amounts allocated by the State through the school fund are larger than the amount allocated to service the bonds given for welfare in the City, whereas the City, during this period paid over half the taxes for servicing this loan. Moreover, the impact of the inequality has not been mitigated by the fact that a larger drain on the equalization fund would have been made had it not been for the existence of the tax reduction fund. In addition, the relief loan of twelve million dollars was matched by Federal funds for relief which were allocated in large part to the counties.

Table No. 8 illustrates the inequity to Baltimore City resulting from the tax reduction fund:

Table No. 8

Statement of Annual Debt Service Requirements for State Emergency Relief Unemployment Loan of 1933 in the Amount of $12,000,000 in Comparison with Annual Appropriations by State to Counties for Reduction of Taxes.

Fiscal Year	Relief Loan Debt Service	Appropriated to Counties	Excess of Appropriations to Counties
1934	$ 677,000	$ 1,500,000	$ 823,000
1935	1,055,640	1,500,000	444,360
1936	1,059,820	1,250,000	190,180
1937	1,061,880	1,250,000	188,120
1938	1,065,860	1,250,000	184,140
1939	1,068,640	1,250,000	181,360
1940	1,071,200	1,250,000	178,800
1941	1,074,520	1,250,000	175,480
1942	1,078,520	1,250,000	171,480
1943 (9 Months)[1]	327,100	1,250,000	922,900
1944	1,075,260	1,250,000	174,740
1945	1,078,600	1,250,000	171,400
1946	1,082,400	1,250,000	167,600
1947	1,086,580	1,250,000	163,420
Total Through 1947	$13,863,020	$18,000,000	$ 4,136,980
1948	1,091,040	1,250,000*	158,960*
1949	1,095,700	1,250,000*	154,300*
1950	181,560	-	-
	$16,231,320		

The amortization of the bond issue for relief for Baltimore City will be completed in 1949. If the tax reduction fund is continued at that time, the patent discrimination against Baltimore City will be intensified. Only by granting another appropriation to Baltimore City or changing the method by which funds are distributed to State schools will this inequity be corrected. (See Graph G).

* If the State provides $1,250,000 for each of the years 1948 and 1949 for tax relief in the Counties, the total excess as of 1947 will be further increased $313,260.

[1] Change in fiscal year from September 30 to June 30. Same explanation applies to tables hereafter showing nine months' calculation for 1943.

received by the sub-divisions. The equalization fund will supply the amount necessary to finance the additional costs of the twelve-year program in the equalization fund counties.

Looking at the entire program as it would result if the Commission's recommendations were adopted, the inequities, including the basic inequality resulting from the relief loan to Baltimore City and tax relief granted to the counties would be eliminated. Moreover, every county would receive more than it is receiving now as the twelve-year school program comes into operation.

Table No. 9

Summary of Public Schools Basic State Aid Program for the Fiscal Year Ended June 30, 1946, and Program resulting from Application thereto of Proposed Revision.

Political Subdivision	Actual Basic State Aid	Proposed Revision Basic State Aid — Total	Classroom Unit at $400. Each	Pupils at $20. Each
Baltimore City	$ 1,441,523.00	$ 3,257,400.00	$ 1,251,720.00	$ 2,005,680.00
Counties:				
Allegany	346,792.00	485,560.00	191,720.00	293,840.00
Anne Arundel	298,731.00	438,760.00	169,160.00	269,600.00
Baltimore	607,646.00	856,780.00	284,640.00	572,140.00
Calvert	55,330.00	73,500.00	27,120.00	46,380.00
Caroline	86,655.00	102,240.00	41,840.00	60,400.00
Carroll	169,422.00	216,160.00	90,640.00	125,520.00
Cecil	130,590.00	156,820.00	63,600.00	93,220.00
Charles	103,132.00	132,720.00	51,360.00	81,360.00
Dorchester	120,921.00	147,640.00	61,520.00	86,120.00
Frederick	225,014.00	292,420.00	112,360.00	180,060.00
Garrett	109,260.00	147,540.00	60,560.00	86,980.00
Harford	174,841.00	229,700.00	92,800.00	136,900.00
Howard	93,335.00	118,040.00	47,760.00	70,280.00
Kent	64,977.00	74,280.00	31,680.00	42,600.00
Montgomery	382,133.00	544,560.00	212,880.00	331,680.00
Prince George's	454,650.00	683,880.00	267,280.00	416,600.00
Queen Anne's	71,345.00	82,240.00	35,600.00	46,640.00
St. Mary's	74,770.00	81,100.00	33,360.00	47,740.00
Somerset	94,257.00	109,780.00	44,160.00	65,620.00
Talbot	79,906.00	98,520.00	40,840.00	57,680.00
Washington	293,435.00	421,460.00	168,800.00	252,660.00
Wicomico	136,954.00	175,280.00	70,040.00	105,240.00
Worcester	98,386.00	120,480.00	48,800.00	71,680.00
Total	$ 5,714,005.00	$ 9,046,860.00	$ 3,500,240.00	$ 5,546,620.00

Incentive Funds

The Commission feels that the recommendation heretofore made for Basic State Aid plus the equalization fund only partly answers the need for financing education in Maryland. The local units should be encouraged to expand the program beyond the State minimum. The State, on the other hand, should not allow the political sub-divisions to feel that the minimum program is the desirable objective but should offer an incentive to the counties and Baltimore City to raise their standards beyond the minimum.

The Commission, after careful study, has concluded that education could best be advanced by offering financial assistance to the local units in addition to Basic State Aid and the equalization fund. This additional assistance should take the form of incentive funds on a matching basis hereafter described.

We have divided the assistance into two forms, (1) an incentive fund for increasing the salaries of school teachers, and (2) an incentive fund to provide better school facilities throughout the State.

The Commission recommends that Basic State Aid and the incentive funds be considered as one general program in order to aid education throughout the State and on a basis resulting in equality.

1. Incentive Fund—Teachers' Salaries

For each 1¢ levied on the taxable basis by a county or Baltimore City to increase teachers' salaries above the State minimum, the State would add an amount sufficient to provide $60.00 per year increase in salary for each teacher. The maximum tax levied by the political sub-division would be 5¢ for this purpose, and, therefore, the maximum participation by the State would be limited to an amount necessary to provide $300. per year increase in teachers' salaries.

This formula when applied to the counties and to Baltimore City would, if the local units take advantage of the provisions of the proposal, result in increased teachers' salaries with the local sub-division meeting a part of the cost and the State defraying the balance.

Table No. 10 shows the application of this incentive fund to each local unit. The local sub-divisions should be given complete autonomy to determine the amount of tax they propose to levy up to a maximum rate of 5¢ to participate in this incentive fund.

2. Incentive Fund—Buildings

Since 1923 the counties and Baltimore City have spent $73,440,000 on school buildings, of which the State has contributed nothing. This has resulted in a highly variable quality of school buildings in the State, many of which are totally inadequate or sub-standard.

In some schools the students of the sciences have excellent laboratory facilities, while in others, the equipment is meager. Shop facilities vary to such an extent that there is no comparison between the instruction which a pupil might receive in one school as compared with another.

The Commission feels that it is highly desirable that a State minimum standard be established in regard to school buildings and facilities, including laboratories, work shops, etc. We feel that the State should assist financially in making possible minimum facilities for all of the schools of the State.

It is estimated that we face a school building program amounting to approximately $120,000,000.; the financial resources of the counties and Baltimore City are inadequate to undertake such a program. We, therefore, propose the following incentive plan for State aid in the construction of school buildings:

For each 1¢ levied on the taxable basis by a county or Baltimore City to finance construction of school buildings and facilities, the State would add an amount sufficient to provide $2.00 per year per pupil in attendance. The maximum tax levied by the political sub-division would be 5¢

Table No. 10

Summary of Estimates for Incentive Fund to Provide Increases in Salaries of Teachers, Based on Program for the Fiscal Year Ending June 30, 1948.

Political Subdivision	MINIMUM INCENTIVE FUND 1¢ on Local Tax Rate (1945 Basis)	State Contribution	Total ($60.00 per Teacher)	MAXIMUM INCENTIVE FUND 5¢ on Local Tax Rate (1945 Basis)	State Contribution	Total ($300.00 per Teacher)
BALTIMORE CITY	$ 138,076.60	$ 59,023.40	$ 197,100.00	$ 690,383.00	$ 295,117.00	$ 985,500.00
COUNTIES:						
Allegany	9,664.00	21,116.00	30,780.00	48,320.00	105,580.00	153,900.00
Anne Arundel	7,236.20	20,123.80	27,360.00	36,181.00	100,619.00	136,800.00
Baltimore	36,274.20	15,205.80	51,480.00	181,371.00	76,029.00	257,400.00
Calvert	778.20	3,841.80	4,620.00	3,891.00	19,209.00	23,100.00
Caroline	1,693.40	5,206.60	6,900.00	8,467.00	26,033.00	34,500.00
Carroll	4,660.40	9,919.60	14,580.00	23,302.00	49,598.00	72,900.00
Cecil	5,494.80	5,245.20	10,740.00	27,474.00	26,226.00	53,700.00
Charles	1,433.20	6,966.80	8,400.00	7,166.00	34,834.00	42,000.00
Dorchester	2,753.20	7,206.80	9,960.00	13,766.00	36,034.00	49,800.00
Frederick	7,382.00	10,798.00	18,180.00	36,910.00	53,990.00	90,900.00
Garrett	1,975.00	7,745.00	9,720.00	9,875.00	38,725.00	48,600.00
Harford	7,536.60	7,523.40	15,060.00	37,683.00	37,617.00	75,300.00
Howard	2,207.40	5,352.60	7,560.00	11,037.00	26,763.00	37,800.00
Kent	1,860.20	3,239.80	5,100.00	9,301.00	16,199.00	25,500.00
Montgomery	18,310.20	15,709.80	34,020.00	91,551.00	78,549.00	170,100.00
Prince George's	15,324.80	27,515.20	42,840.00	76,624.00	137,576.00	214,200.00
Queen Anne's	1,803.00	4,017.00	5,820.00	9,015.00	20,085.00	29,100.00
St. Mary's	1,082.40	4,437.60	5,520.00	5,412.00	22,188.00	27,600.00
Somerset	1,318.80	5,821.20	7,140.00	6,594.00	29,106.00	35,700.00
Talbot	2,400.40	4,259.60	6,660.00	12,002.00	21,298.00	33,300.00
Washington	10,107.40	17,252.60	27,360.00	50,537.00	86,263.00	136,800.00
Wicomico	3,982.60	7,117.40	11,100.00	19,913.00	35,587.00	55,500.00
Worcester	2,527.60	5,512.40	8,040.00	12,638.00	27,562.00	40,200.00
Totals	$ 285,882.60	$ 280,157.40	$ 566,040.00	$ 1,429,413.00	$ 1,400,787.00	$ 2,830,200.00

for this purpose, and, therefore, the maximum participation by the State would be limited to an amount necessary to provide $10.00 per year per pupil.

These funds would be available for school buildings and their equipment.

The school building program is vast, but a start has to be made. Some counties may finance education on a pay-as-you-go basis, while others may issue bonds. If bonds are issued, careful consideration must be given not only to present economic conditions but to conditions that may exist in the future. Table No. 11 shows the application of this incentive fund to the counties and Baltimore City.

The Commission further recommends that any political sub-division may participate in either or both of the incentive funds, as each is to be considered separately, the county to determine the extent to which it shall participate. The maximum participation would of course be a total of 10¢ on the tax levy.

The recommendations for Basic State Aid are fundamental. With either or both of the incentive funds a State aid program for education is produced that is fair and equitable. But the adoption of either one of the incentive funds without the changes recommended in Basic State Aid would produce gross inequalities.

The Commission emphasizes the fact that the program for education recommended in this report must be considered and should be adopted as an entirety.

For the effect of the entire program see Table No. 12.

Table No. 11

Summary of Estimates for Incentive Fund to Provide Aid in the Construction of School Buildings, Based on Program for the Fiscal Year Ending June 30, 1948.

Political Subdivision	MINIMUM INCENTIVE FUND 1¢ on Local Tax Rate (1945 Basis)	State Contribution	Total ($2.00 per Pupil in Attendance)	MAXIMUM INCENTIVE FUND 5¢ on Local Tax Rate (1945 Basis)	State Contribution	Total ($10.00 per Pupil in Attendance)
BALTIMORE CITY	$ 138,076.60	$ 74,351.40	$ 212,428.00	$ 690,383.00	$ 371,757.00	$ 1,062,140.00
COUNTIES:						
Allegany	9,664.00	21,200.00	30,864.00	48,320.00	106,000.00	154,320.00
Anne Arundel	7,236.20	21,323.80	28,560.00	36,181.00	106,619.00	142,800.00
Baltimore	36,274.20	25,239.80	61,514.00	181,371.00	126,199.00	307,570.00
Calvert	778.20	4,259.80	5,038.00	3,891.00	21,299.00	25,190.00
Caroline	1,693.40	4,706.60	6,400.00	8,467.00	23,533.00	32,000.00
Carroll	4,660.40	8,571.60	13,232.00	23,302.00	42,858.00	66,160.00
Cecil	5,494.80	4,307.20	9,802.00	27,474.00	21,536.00	49,010.00
Charles	1,433.20	7,222.80	8,656.00	7,166.00	36,114.00	43,280.00
Dorchester	2,753.20	6,338.80	9,092.00	13,766.00	31,694.00	45,460.00
Frederick	7,382.00	11,384.00	18,766.00	36,910.00	56,920.00	93,830.00
Garrett	1,975.00	7,283.00	9,258.00	9,875.00	36,415.00	46,290.00
Harford	7,536.60	6,873.40	14,410.00	37,683.00	34,367.00	72,050.00
Howard	2,207.40	5,260.60	7,468.00	11,037.00	26,303.00	37,340.00
Kent	1,860.20	2,599.80	4,460.00	9,301.00	12,999.00	22,300.00
Montgomery	18,310.20	16,737.80	35,048.00	91,551.00	83,689.00	175,240.00
Prince George's	15,324.80	29,035.20	44,360.00	76,624.00	145,176.00	221,800.00
Queen Anne's	1,803.00	3,101.00	4,904.00	9,015.00	15,505.00	24,520.00
St. Mary's	1,082.40	4,171.60	5,254.00	5,412.00	20,858.00	26,270.00
Somerset	1,318.80	5,563.20	6,882.00	6,594.00	27,816.00	34,410.00
Talbot	2,400.40	3,767.60	6,168.00	12,002.00	18,838.00	30,840.00
Washington	10,107.40	16,378.60	26,486.00	50,537.00	81,893.00	132,430.00
Wicomico	3,982.60	6,989.40	10,972.00	19,913.00	34,947.00	54,860.00
Worcester	2,527.60	5,040.40	7,568.00	12,638.00	25,202.00	37,840.00
Totals	$ 285,882.60	$ 301,707.40	$ 587,590.00	$ 1,429,413.00	$ 1,508,537.00	$ 2,937,950.00

Table No. 12

Summary of Estimated Net Additional Annual Appropriations Required to Effect Proposed Revision in Public School State Aid.

	Baltimore City	Counties	Total
Basic State Aid	$ 1,815,877.00	$ 1,516,978.00	$ 3,332,855.00
Equallzation Fund		1,057,324.00*	1,057,324.00*
Incentive Fund to Provide Increases in Salaries of Teachers, Maximum	295,117.00	1,105,670.00	1,400,787.00
Incentive Fund to Provide Aid in the Construction of School Buildings, Maximum	371,757.00	1,136,780.00	1,508,537.00
Total	$ 2,482,751.00	$ 2,702,104.00	$ 5,184,855.00

*Indicates red.

TAX ON ADMISSIONS.

Section 74 of Article 56 of the Annotated Code (1943 Supp.) levies a tax at the rate of ½% of the gross receipts of every person, firm or corporation operating for profit any place of amusement within the State of Maryland. In addition, Section 74A of Article 56 imposes an additional tax of 5¢ for each person admitted free or at reduced rates to any place of amusement, at a time when and under circumstances under which an admission charge is made to other persons, not in excess of 50¢; a tax of 10¢ when the price charged to such other persons is in excess of 50¢ but not in excess of $1.00; and a tax of 15¢ where the price charged to such other persons is in excess of $1.00. No such tax is charged in the case of school children or orphans who are admitted free to certain types of entertainment, or in the case of persons in uniform of the Armed Forces who are admitted free or at reduced rates to any place of entertainment during World War II and six months thereafter. No admission tax is collected upon admissions or other charges devoted to charitable, religious or educational purposes, or upon similar proceeds which go to volunteer fire companies.

The admissions tax is administered by the Comptroller of the Treasury. As appears from the Fiscal Digest of the State of Maryland, the total cost of administration of the tax allowed for the fiscal year ending in 1945 was $23,568 for salaries and $9,015 for general expenses. The actual cost of administration for the fiscal year ending in 1945 was $28,872.09.

The following data show the total amount received by the State from the tax on admissions for the last ten fiscal years. In this connection, attention should be called to the fact that the rate of tax was 1% to October 1, 1941.

1946	$276,717.38
1945	252,482.87
1944	237,688.31
1943 (9 Months)	172,287.78
1942	275,549.02
1941	265,755.88
1940	253,911.68
1939	253,998.76
1938	231,660.95
1937	233,929.59

At the present time there is no allocation of the revenues received from the admission tax between the State and its local political sub-divisions.

Two factors are outstanding when the tax on admissions is considered. In the first place, the tax is largely local in scope. This results from the fact that places of amusement receive the bulk of their governmental protection from the local political sub-divisions. Thus the incorporated town or city or the county in which an amusement is held furnishes fire and police protection, water and sewerage, the upkeep of public streets and countless other services to the subject in question. However, the incorporated county or town or city receives no part of the admissions tax to defray the cost of these services. In the second place, the cost of administration of the present admissions tax is disproportionately high when compared to the tax yield. Thus, in 1945, the State received $252,482.87 in taxes on admissions at a cost of $28,872.09.

RECOMMENDATIONS.

Because the tax on admissions is imposed upon a taxable subject which is purely local in character, the Commission recommends that the net proceeds of the tax should be allocated to the local political sub-division in which the tax is collected. In this connection, the Commission recommends that the admissions tax should continue to be administered by the Comptroller of the Treasury. Under this proposal, the tax would continue to be collected by the State and the proceeds would be paid into the general fund. The State would then be allowed to retain 10% of collections to defray the cost of administration, and the balance of the tax would be returned to the incorporated towns or cities in which the tax was collected. Where the tax is collected from a place of amusement not located in an incorporated town or city, the Commission recommends that the net proceeds of the tax be allocated to the county in which collection is made.

As pointed out above, the admissions tax is collected from sources which are strictly local in character. Moreover, while the Maryland tax rate is small, the total tax burden carried by admissions is relatively high due principally to the present Federal tax. It is believed, however, that this condition will not continue because the Federal admissions tax, which was increased during the war, will in all probability be reduced. If it is true that admissions will carry a proportionately less tax load in the future, the Maryland rates could be raised without distortion of the overall picture. The Commission believes, however, that the results of such an increase in the Maryland tax should inure to the benefit of the local political sub-divisions and not to the State. For the reasons stated, the Commission recommends that legislation be passed which would permit the local political sub-divisions to increase the rate of tax on admissions at such time or times as the revenues which would be produced thereby are required by the local governments.

While the recommendations made above might result in different amusement taxes for the various localities, we believe the nature of the tax is such as not to require uniformity. Uniformity of taxation, referred to elsewhere in this report, does not apply to minor excise taxes of this nature.

Effect of Proposed Allocation.

Table No. 13 shows the allocation to the local sub-divisions under the Commission's recommendations.

Table No. 13

Summary of Estimated Effect of Admission Tax Revenue and Allocation Revisions proposed as applied to the Fiscal Years Ended June 30, 1946 and 1945.

	1946		1945	
	Actual	Proposed Revision	Actual	Proposed Revision
Revenue	$276,717.38	$276,717.38	$252,482.87	$252,482.87
Allocation of Revenue:				
State General Fund	$276,717.38	$ 27,671.74	$252,482.87	$ 25,248.29
Baltimore City		158,168.19		153,872.45
Counties and Incorporated Towns:				
Allegany		10,667.58		9,928.07
Anne Arundel		14,332.27		14,066.14
Baltimore		7,408.85		5,802.72
Calvert		1,230.77		625.98
Caroline		494.35		399.10
Carroll		1,415.35		1,256.76
Cecil		1,129.64		1,119.02
Charles		1,217.93		881.70
Dorchester		1,726.01		1,387.74
Frederick		3,873.66		3,729.22
Garrett		364.59		340.05
Harford		9,465.74		2,490.33
Howard		299.77		415.37
Kent		909.65		661.68
Montgomery		6,943.08		5,825.65
Prince George's		11,428.08		6,736.83
Queen Anne's		560.50		417.98
St. Mary's		2,095.96		1,831.71
Somerset		461.66		466.05
Talbot		1,630.24		1,099.36
Washington		8,258.36		9,327.00
Wicomico		2,243.88		2,434.99
Worcester		2,719.53		2,118.68
Total	$276,717.38	$276,717.38	$252,482.87	$252,482.87

STATE LICENSES.

Licenses are generally divided into two groups, namely, those imposed for the purpose of regulation and those imposed for the purpose of producing revenue. In many cases, fine distinctions must be drawn before a license can be properly classified. Nevertheless, the Commission believes that such a distinction must be drawn. The reason for this lies in the fact that the primary end-product which the Commission must achieve is a fair distribution of tax revenues. Patently, this result does not include the allocation of licenses or fees which produce no revenue and which exist solely for the purpose of regulating certain types of human conduct. For this reason, this portion of the report does not deal with regulatory licenses, which include dog, health, marriage, employment agencies, sporting events and conservation licenses; nor does it cover licenses issued by State-established regulatory bodies such as real estate brokers' licenses.

Within the classifications of "business licenses" there must be included certain revenue-producing measures which are considered elsewhere in this report. The revenue received by the State from these licenses is not, therefore, dealt with at this point. Licenses in this category include: motor vehicles, gasoline, and horse racing.

Revenue received by the State from licenses issued by the office of the Comptroller, Alcoholic Beverage Tax Division, is within the scope of this section of the report. These licenses include:

1. Manufacturer's license.
2. Wine manufacturer's license.
3. Wholesaler's license.
4. Beer-wholesaler's license.
5. Class "E" on sale, steamboats.
6. Class "F" on sale, railroads.

The total revenue derived by the State from these measures for the past six years has been as follows:

1946	$126,716.78
1945	114,402.20
1944	107,568.14
1943 (9 Months)	92,520.76
1942	98,941.59
1941	104,747.43

None of the revenue received from these licenses is allocated between the State and its local political sub-divisions.

The Commission believes that as a matter of policy it should not recommend a distribution of tax revenues between the State and its local political sub-divisions unless there exists a strong and compelling reason therefor. In the case of licenses issued by the Alcoholic Beverage Tax Division no such reason exists. To the contrary, the Commission feels that the licenses in this category are imposed, in each case, upon functions which are state-wide in scope. Certainly this is true with respect to the privilege of manufacturing alcoholic beverages and the privilege of operating wholesale establishments within the State. It is none the less true with respect to the privilege of selling alcoholic beverages on railroad trains and steamboats, neither activity being local in character. For the reasons stated, the Commission recommends that the revenue derived from licenses issued by the Alcoholic Beverage Tax Division should remain with the State.

Revenue received by the State from licenses issued by the clerks of the courts is within the scope of this section of the report. These licenses include:

1. Billiard Tables.
2. Bowling Saloons.
3. Carnivals.
4. Chain Stores.
5. Cigarettes.
6. Circus.
7. Cleaning, Dyeing and Pressing.
8. Commercial, Mutual Protective Agencies.

9. Construction Firms (resident and non-resident).
10. Detective Agents and Agencies.
11. Garages.
12. Hawkers and Peddlers.
13. Horse and Jack.
14. Laundries.
15. Motion Picture Machines.
16. Moving Picture Shows.
17. Music Boxes.
18. Non-residents Wholesale Tobacco Dealers.
19. Plumbers and Gasfitters.
20. Restaurants or Eating Places.
21. Shows.
22. Soda Water Fountains.
23. Solid Fuel Dealers.
24. Storage Warehouses.
25. Theatres.
26. Traders.
27. Trading Stamp Companies.
28. Vending Machines.
29. Wholesale Dealers in Farm Machinery.

The Commission recognizes the fact that at least one or more of the above-named licenses could be characterized as regulatory measures. Licenses for solid fuel dealers, resident and foreign construction firms and shows conceivably fit into this category. However, the total amount collected from all of these licenses is exceedingly small. For the purpose of simplicity, therefore, all of these measures will be considered to be "business licenses".

The most important classification of the licenses issued by the clerks of the court for the purposes of this report is the distinction between licenses which are state-wide in scope and those which are purely local in character. After consideration of this problem, and with the aid of conferences with the personnel of the State License Bureau, the Commission is of the opinion that the following licenses are state-wide in scope:

Licenses	Revenue Received in 1945
1. Commercial, Mutual Protective Agencies	$ 99.00
2. Detective Agents and Agencies	2,246.21
3. Music Boxes	41,389.18
4. Solid Fuel Dealers	3,253.00
5. Storage Warehouses	6,534.92
6. Trading Stamp Companies	544.50
7. Vending Machines	4,220.04
8. Non-residents Wholesale Tobacco Dealers	—
Total	$ 58,286.85

The following licenses which are issued by the clerks of the courts will be considered hereinafter to be local in scope:

Licenses	Revenue Received in 1945
1. Billiard Tables	$ 6,366.94
2. Bowling Saloons	13,285.86
3. Carnivals	982.00
4. Chain Stores	63,013.31
5. Cigarettes	252,609.52
6. Circus	99.00
7. Cleaning, Dyeing, and Pressing	5,047.47
8. Construction Firms	1,734.48
9. Garages	11,787.18
10. Hawkers and Peddlers	432.26
11. Horse and Jack	186.68
12. Laundries	6,555.13
13. Motion Pictures Machines	134.60
14. Moving Picture Shows	38,025.87
15. Plumbers and Gasfitters	5,321.69
16. Restaurants or Eating Places	71,353.70
17. Shows	123.50
18. Soda Water Fountains	31,505.74
19. Theatres	330.01
20. Traders	496,096.59
21. Wholesale Dealers in Farm Machinery	396.00
Total	$ 1,005,387.53

None of the revenue received from the licenses in the groups listed above is allocated between the State and its local political sub-divisions. However, to offset the burden of collection, the clerks of the courts are allowed to retain 5% in the counties and 1% in Baltimore City of all license revenues collected by them. The clerks are also allowed to charge an additional fee for issuing each license.

The enforcement of the various State licenses is delegated to the State License Bureau. However, the major part of this task is carried by the local police forces which operate in the licensee's district. As appears from the Fiscal Digest of the State of Maryland, the total salaries appropriated for personnel of the State License Bureau for the fiscal year ending in 1945 was $16,830.00. The actual cost incurred by the State License Bureau was $23,809.62 for the fiscal year ending in 1945. In this connection, the report of the Chief Inspector of State Licenses shows that in the same period $30,274.22 was collected as delinquencies in the counties and the City of Baltimore, of which $18,502.71 was collected in Baltimore. It is safe to state, therefore, that the State License Bureau more than pays its expenses through delinquency collections.

The activities covered by licenses which are state-wide in scope place little if any added burden on the local political sub-divisions. As in the case of the licenses issued by the Alcoholic Beverage Tax Division of the office of the Comptroller, the state-wide licenses issued by the clerks of the courts cover functions of a state-wide nature. For these reasons, the Commission recommends that revenues produced by the licenses which are considered to be state-wide in character should remain with the State and should not be subject to allocation between the State and its local political sub-divisions.

The licenses which have been characterized as "local" and the activities which are subject to them contrast sharply with the state-wide licenses. The trader's license is a classic example. In this case it is the local political sub-division which supplies the necessary governmental protection making possible the orderly pursuit of the licensee's business. His establishment is protected from thieves by the local police force, from fire by the local fire department; he receives water and sewerage from the local municipality, and his clientele come and go to his establishment over streets which have been built and are maintained by his local political sub-division. Because the local political sub-divisions do not share in the revenue received from local licenses, they are placed in an inequitable position.

RECOMMENDATIONS.

In order that the patent inequities outlined above may be corrected, the Commission recommends that the revenue received from all local licenses should be allocated to the incorporated town or city in which the licensed activity is carried on. In this connection, the Commission recommends that the existing method of license collection should be continued. To offset the expense of collection, the Commission recommends that the present percentage of license revenues retained by the clerks of the courts and the additional issuance fee should continue to be deducted by the clerks. The Commission further recommends that the State License Bureau should continue to function as it does at present, and that the clerks of the courts should deduct 3% of collections which should be paid into the State general fund to defray the expenses of the Bureau. All net proceeds remaining in the hands of the clerks of the courts, after the deductions hereinabove mentioned have been made, should then be paid to the incorporated town or city in which the licensed activity is located. Where the licensed activity is not located in an incorporated town or city, the Commission recommends that the license receipts be paid to the county in which the activity in question is carried on.

In making its study of the license laws of the State, the Commission has been impressed by the fact that an obvious loophole exists with respect to the method by which traders' licenses are issued. At the present time, the amount required to be paid for a trader's license is based upon the value of the licensee's inventory. The true values of all inventories, including those of corporations, partnerships and sole-proprietorships, are on record in the office of the Supervisor of Assessments in the counties and the Bureau of Assessments in Baltimore City. However, in issuing traders' licenses, the clerks of the courts do not take advantage of this fact, and the Commission has been informed that there is no general coordination or exchange of information between the office of the Supervisor of Assessments and the clerks of the courts with respect to inventory values.[1] The result is that in many cases the values of inventories used by the trader in securing his license are below the values established for that inventory for the purposes of personal property taxation.

To correct this condition, the Commission recommends that all traders be required to secure a certificate from the office of the Supervisor of Assessments in the county or the Bureau of Assessments in the City of Baltimore, showing the values of their inventories as established for the purposes of personal property taxation. Such certificate should then become the basis upon which the clerks of the courts should issue traders' licenses. The Commission further recommends that no traders' licenses should be issued to a prospective licensee unless and until the licensee exhibits the certificate showing correct inventory values to the clerks of the courts.

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[1] An attempt has been made to close this loophole in Anne Arundel County. See Article 56, Section 1, Annotated Code of Maryland, (1943 Supp).

Effect of Allocations.

Table No. 14 shows the effect of the Commission's recommendations.

Table No. 14

Summary of Estimated Effect of "Local Business" License Revenue and Allocation Revisions Proposed as Applied to the Fiscal Years Ended June 30, 1946 and 1945.

	1946 Actual	1946 Revision Proposed	1945 Actual	1945 Revision Proposed
Revenue	$ 1,151,031.30	$ 1,151,031.30	$ 1,005,587.03	$ 1,005,587.03
Allocation of Revenue:				
State General Fund	$ 1,151,031.30	$ 36,348.42	$ 1,005,587.03	$ 31,755.43
Baltimore City		601,343.97		534,063.93
Counties and Incorporated Towns:				
Allegany		47,711.12		42,001.26
Anne Arundel		39,637.47		31,483.62
Baltimore		67,912.17		57,021.67
Calvert		6,053.34		5,128.23
Caroline		10,448.95		9,097.82
Carroll		19,798.42		16,732.70
Cecil		18,367.87		14,739.22
Charles		10,580.52		8,170.16
Dorchester		17,193.33		15,839.01
Frederick		30,994.22		27,756.27
Garrett		9,209.14		6,920.18
Harford		21,859.91		17,978.62
Howard		8,991.68		7,447.42
Kent		9,594.49		8,681.71
Montgomery		31,960.41		27,165.44
Prince George's		35,453.18		30,376.71
Queen Anne's		8,810.44		7,421.03
St. Mary's		9,836.50		7,323.05
Somerset		10,710.17		9,681.95
Talbot		12,566.79		11,442.11
Washington		43,542.65		38,983.28
Wicomico		24,954.57		22,364.35
Worcester		17,151.57		16,011.86
Total	$ 1,151,031.30	$ 1,151,031.30	$ 1,005,587.03	$ 1,005,587.03

RECORDATION TAX.

Sections 220 and 221 of Article 81 of the Annotated Code of Maryland impose a tax on the recordation of every instrument conveying title to real or personal property, or creating liens or encumbrances upon real or personal property. In addition to the tax thus imposed, the clerks of the courts are empowered to collect a fee of fifty cents for each instrument offered for record and recorded. The entire proceeds resulting from the recordation tax are paid into the State general fund at present time, and no part thereof is subject to allocation between the State and its local political sub-divisions. The general fund revenues received from these taxes for the past six years have been as follows:

1946	$549,869.69
1945	339,101.40
1944	295,252.54
1943 (9 Months)	198,407.35
1942	310,465.65
1941	315,107.36

It would be hard to imagine an activity which is more local in character than that of recording instruments relating to real estate or personal property. The personnel employed in the offices of the clerks of the courts for the purpose of recording instruments are local people, the expense of maintaining the Court Houses is a local expense and the property subject to recordation is, in the majority of cases, locally situated. Moreover, it is safe to assume that the recordation tax is not an integral part of the Maryland system of State taxation. This fact is made clear by the relatively low yield produced by the tax. On the other hand, the tax is easy and cheap to administer and lends itself well to allocation.

As previously stated, property covered by recorded instruments, is, in the majority of cases, locally situated. It is sometimes true, however, that the property in question is located partly in one county and partly in another. An example of this situation would be a mortgage securing bonds of a corporation which carried on business in five or more counties. The Commission believes that an attempt to allocate the revenue produced from the recordation of instruments covering property situated in two or more counties would multiply administrative difficulties. The Commission recommends that the recordation tax imposed on such instruments should continue to be paid into the State general fund. However, the Commission sees no administrative difficulties involved in allocating to the local political sub-divisions the proceeds of the recordation tax where the property involved is located wholly within the sub-division.

RECOMMENDATION.

The Commission recommends that the proceeds of the recordation tax imposed on instruments which involve property located entirely within a local political sub-division should be allocated to the county or Baltimore City in which the tax is collected.

EFFECT OF ALLOCATIONS.

Table No. 15 shows the effect of the Commission's recommendations.

Table No. 15

Summary of Estimated Effect of Recordation Tax Revenue and Allocation Revisions Proposed as Applied to the Fiscal Years Ended June 30, 1946 and 1945.

	1946 Actual	1946 Revision Proposed	1945 Actual	1945 Revision Proposed
Revenue	$549,869.69	$549,869.69	$339,101.40	$339,101.40
Allocation of Revenue:				
State General Fund	$549,869.69		$339,101.40	
Baltimore City		$267,809.80		$171,194.53
Counties:				
Allegany		11,024.56		6,165.60
Anne Arundel		14,622.95		11,010.83
Baltimore		25,710.75		13,692.96
Calvert		2,150.11		1,394.67
Caroline		2,685.07		2,014.16
Carroll		5,418.94		3,838.32
Cecil		31,083.57		3,013.79
Charles		2,767.68		3,361.40
Dorchester		3,151.53		2,648.41
Frederick		8,149.12		20,860.80
Garrett		2,657.19		2,219.89
Harford		6,601.77		3,797.39
Howard		3,227.22		1,928.96
Kent		2,314.46		1,703.70
Montgomery		66,745.55		35,813.88
Prince George's		54,744.84		31,167.91
Queen Anne's		2,434.90		1,376.58
St. Mary's		4,857.71		1,354.03
Somerset		2,085.13		1,603.58
Talbot		4,782.65		2,650.54
Washington		12,186.82		8,323.85
Wicomico		8,073.07		4,966.48
Worcester		4,584.30		2,999.14
Total	$549,869.69	$549,869.69	$339,101.40	$339,101.40

STATE TAX ON REAL AND PERSONAL PROPERTY.

At the present time, the State imposes a tax on real and personal property subject to tax at the rate of 10¢ per $100 of assessed value. This rate has declined gradually through the years, the all-time high being $.3675 per $100 in 1918. However, the State tax on real and tangible personal property is still productive. Thus, for the fiscal year ending on June 30, 1945, this method of taxation accounted for 7.12% of the total State tax receipts (the rate being 12¢ per $100 of assessed value).

Because of the fact that the State property tax seemingly has been relegated to an inferior position in the scheme of State taxation when compared to more modern revenue-producing measures (the income tax now produces approximately 20.97% of total State tax revenues), it has been suggested that the State should abandon the tax, leaving to the local political sub-divisions the exclusive right to tax real and personal property. The Commission has carefully considered this suggestion, and, on the assumption that the present policy toward equalization of assessments will be successfully consummated, believes the proposal should not be adopted at this time.

A tax on real and personal property as a method of producing State revenues is traditional in Maryland. Its cost of administration is not unduly high, and its productivity can be increased or decreased, as the case may require, with relative ease. Moreover, no tax structure should be predicated upon a single theory of taxation such as the ability to pay. The elimination of the property tax would, it is believed, destroy the current balance in the types of State taxes now in force, and have the effect of resting Maryland's tax structure to too great an extent on the ability-to-pay theory.

There are other reasons which are perhaps more practical than those mentioned above leading the Commission to believe that the State tax on real and personal property should be retained. Initially, the Commission believes that the State should not abandon a source of revenue which might, in the unforeseeable future, be greatly needed. Secondly, practically the entire amount of revenue from these sources is now allocated to the Annuity Bond Fund. Tax revenues derived from real estate are now used for the servicing of all State bonds, with the exception of the Emergency Bond Issue of 1935, which is serviced by the inheritance tax. In the third place, the gross receipts tax imposed on railroads and certain other utilities is in lieu of a State property tax. If the State should abandon its tax on real estate, it is reasonable to believe that an added inducement would be present to contest the constitutionality of the gross receipts tax. Since this question is not altogether free from doubt, it is believed that the status quo should be retained.

RECOMMENDATION.

The Commission recommends that the State tax on real and personal property should be retained.

EQUALIZATION OF ASSESSMENTS.

While not specifically within the reference of this Commission, we feel no discussion of the State tax on real and personal property would be complete without mention of the troublesome question involving the equalization of assessments. In Maryland, as in the majority of states which impose a tax on real estate, it is generally believed that there exists a wide disparity, in some of the counties, between the true value and the assessed value of property subject to tax. Granting the existence of this condition, it necessarily follows that the local political sub-division which does assess property subject to tax within its jurisdiction at or near true value is subject to some discrimination. This results from the fact that the county which under-assesses its property pays proportionately less in the form of property taxes to the State, and receives proportionately greater aid from the school equalization fund and the welfare fund than the county which assesses at or near true value.

The problem, which was more acute in former years than it is today, is in the process of solution. Prior to 1941, the Maryland law merely required that property be reviewed for assessment at least once in every five years. Pursuant to a recommendation made by the Maryland Tax Revision Commission of 1939, the Legislature, in 1943, adopted a system of continuous assessments. At the present time, Section 175(8) of Article 81 of the Code provides that all assessable property shall be thoroughly reviewed at least once in every five years. The law also requires the State Tax Commission, after consultation with local assessing authorities, to establish five districts or five classes of property in each county and in Baltimore City, and further requires that the property in one of the districts or classes must be reviewed and reassessed each year in rotation. Moreover, the law now provides for the appointment of permanent assessors who hold office indefinitely, and who are subject to removal only by the State Tax Commission for cause.

The Commission believes that the Supervisors of Assessments and their assessors in the various counties have made and are making a conscientious effort to apply uniform standards of assessment throughout the State. With the help of the State Tax Commission, the Supervisors of Assessments and their assessors have formed a state-wide association, which has sponsored a highly successful program of in-training instruction, having as its purpose the teaching of the fundamentals of assessment practice. In addition, the records of the State Tax Commission clearly show that assessments are being increased, especially in the counties which have heretofore compared unfavorably with those jurisdictions in which assessed value equalled or approached actual value.

Recommendation.

The Commission recommends that the State Tax Commission, the Supervisors of Assessors and their Assessors continue to strive to bring about at the earliest possible date uniform, equitable assessments in every local unit in the State.

STATE MENTAL HOSPITALS.

The present system of payment for mental patients in State hospitals is provided for by Section 49 of Article 59 of the Code and by the State Budget Law. Section 49 provides essentially that for each patient accepted as a resident by any of the counties or by Baltimore City and sent to any of the State hospitals for mental patients or to Rosewood State Training School, Baltimore City or the county in question shall pay into the State Treasury $125.00 per patient per year, and the remaining amount required for the treatment of the patient shall be paid from the State Treasury.

The distribution of patients in these hospitals by counties as of May, 1946 is shown in Table No. 16. Those patients listed as "at large" are patients not charged to any particular sub-division. In general they represent prisoners and non-residents being given emergency care. The last column represents the approximate annual payment by the political subdivision and is obtained by multiplying the number of patients by $125.00.

The law also provides that the counties and Baltimore City shall charge the patients or the patients' relatives for hospital care and with any money collected shall first reimburse themselves for the $125.00 which they have expended and shall return the balance to the State. The excess thus collected serves as an offset against State expenditures, thereby reducing the total cost to the State. The last figure available shows a collection of $163,770.00 for the year 1946.

Some counties make very little effort to collect any money from relatives, either to reimburse themselves or the State. Experience shows that when such efforts are made conscientiously, substantial amounts of money can be collected. In some instances the estates of mental patients are administered by the equity courts, and yet no effort is made by the county to petition the court for the payment in accordance with the modest schedule provided by law. In Baltimore City it is estimated that the reimbursement from relatives for the current year will approximate $80,000.00, all of which is collected from the families of the patients or from estates being administered by the courts.

In thirty-five states the entire cost of maintenance of patients in state mental disease hospitals is borne by the state; in seven states the local units pay the entire cost; while in the remaining six states, including Maryland, the local units contribute a part of the costs. Thirty-five states

Table No. 16

Number of Patients in State Mental Hospitals and Cost to Local Units.

	No. of Patients	Approximate Annual Expenditure
Allegany County	281	$ 35,125.00
Anne Arundel County	242	30,125.00
Baltimore County	532	66,500.00
Calvert County	45	5,625.00
Caroline County	56	7,000.00
Carroll County	130	16,250.00
Cecil County	99	12,375.00
Charles County	74	9,250.00
Dorchester County	113	14,125.00
Frederick County	222	27,750.00
Garrett County	82	10,250.00
Harford County	159	19,875.00
Howard County	86	10,750.00
Kent County	64	8,000.00
Montgomery County	238	29,750.00
Prince George's County	310	38,750.00
Queen Anne's County	62	7,750.00
St. Mary's County	53	6,625.00
Somerset County	81	10,125.00
Talbot County	76	9,500.00
Washington County	229	28,625.00
Wicomico County	119	14,875.00
Worcester County	72	9,000.00
Baltimore City	4,904	613,000.00
At Large	198	—
	8,526	$ 1,041,000.00

pay the entire cost of maintenance of patients in state mental disease hospitals, as follows:

Alabama	Massachusetts	Oklahoma
Arkansas	Michigan	Oregon
California	Minnesota	Rhode Island
Delaware	Montana	South Carolina
Florida	Mississippi	Tennessee
Georgia	Nevada	Texas
Idaho	New Hampshire	Utah
Iowa	New Mexico	Vermont
Kansas	New York	Virginia
Kentucky	North Carolina	Washington
Louisiana	North Dakota	Wyoming
Maine	Ohio	

In the remaining thirteen states, the counties either pay for the entire cost or a part of the cost. In the following states the counties or local units pay the entire cost:

Arizona	Nebraska	South Dakota
Colorado	New Jersey	Wisconsin
Indiana		

In the following states, the counties or local units pay a part of the cost as indicated:

Connecticut—$3.00 per week.

Illinois—cost of clothing and other proper incidental expenses.

Maryland—$125 per year.

Missouri—$6.00 per month, plus clothing. (If, however, any county or city has an approved institution of its own, the State pays $8.00 per month per patient.)

Pennsylvania—$3.00 per week, but if county has institution of its own, the State pays $2.00 per week per patient.

West Virginia—$50.00 per year.

Recommendations.

The cost of keeping a patient in the mental hospitals in Maryland is approximately $360.00 per year. Like all other costs the figure is steadily rising. We believe the Maryland system of contribution by the local units is sound and that the principle should not be disturbed. We recommend that the contribution of $125.00 per patient should not be increased and that the entire cost over and above this sum should be borne by the State.

We recommend that the Boards of County Commissioners of the respective counties devise a plan for the more intensive collection from relatives of patients and estates of at least a part of the cost where collectible.

GROSS RECEIPTS TAX ON PUBLIC UTILITIES.

Corporations pay annually to the State of Maryland certain recurrent excise taxes and fees. Among these is the franchise tax. In the case of public utilities and safe deposit and trust companies doing business in Maryland, the franchise tax is measured by operating revenues or gross receipts realized from business done in this State. Thus, every railroad worked by steam, telegraph, express, parlor car, sleeping car, safe deposit and trust company, telephone, oil pipe line, electric light and power and gas company doing business in this State, except corporations organized or converted under, or doing business pursuant to the Electric Cooperative Act, pays annually a gross receipts tax measured by operating revenues from business done in the State of Maryland in the preceding calendar year. The rate of tax ranges from 1% to 2½%. Certain operating revenues of motor transportation companies are exempt under the law. The gross receipts tax applies to partnerships and individuals as well as corporations engaging in any of the enumerated branches of business.

At the present time there is no allocation between the State and its local political sub-divisions with respect to the gross receipts tax on public utilities and safe deposit and trust companies. As appears from the report of the Comptroller, the following revenues have been received from the gross receipts tax in the past six years:

Franchise Tax on Gross Receipts.

	Total
1946	$4,019,176.16
1945	3,169,836.91
1944	2,772,035.92
1943 (9 Months)	1,666,871.51
1942	1,898,677.90
1941	669,704.20

Recommendation.

The gross receipts tax is an integral part of the State tax structure. As appears from the tabulations listed above, the State receives substantial sums of revenue from this source. Moreover, the present difficulty in allocating gross receipts subject to tax between one state and another is conclusive evidence of the fact that an almost impossible burden would be imposed on the State Tax Commission if it were required to allocate the gross receipts tax between one local political sub-division and another. Because of these facts, the Commission recommends that there should be no allocation between the State and its local political sub-divisions with respect to the revenues received from the gross receipts tax.

EXCISE TAX ON LIQUOR AND BEER.

Section 48 of Article 2B of the Annotated Code of Maryland (1943 Supp.) levies a tax on distilled spirits and other alcoholic beverages at a rate of $1.25 per gallon, and on all wine a tax of 20¢ per gallon. These taxes are paid by the manufacturer, wholesaler or dispensary to the Comptroller before such alcoholic beverages are removed from the place of business or warehouse of the manufacturer or wholesaler or delivered to any retail-dealer (except Classes E and F). The Section does not apply to beer and wine sold or delivered by a manufacturer or wholesaler to any retailer in Maryland. Neither does the Section apply to wines used by religious institutions for sacramental purposes, nor to hospitals which purchase wine or liquor for medical purposes. The basic rate of $1.25 applicable to alcoholic beverages is based on standard proof (Title 26, Chapter 18, Section 1158 of the United States Code Annotated); and if proof is in excess thereof, the rate of taxation is increased proportionately.

Section 49 of Article 2B of the Annotated Code of Maryland (1943 Supp.) levies a tax of three cents per gallon on all beer sold or delivered by (1) any non-resident dealer to a local wholesaler, and (2) any manufacturer to a wholesaler or retailer in Maryland. Special provision is made in the Section with respect to beer sold or delivered into Garrett County, and an additional tax is imposed thereby for the general use of that County.

Total net revenues received by the State from these sources for the past six years have been as follows:

1946	$7,555,874.26
1945	6,782,471.40
1944	5,777,165.90
1943 (9 Months)	4,385,803.29
1942	6,185,384.25
1941	5,333,934.22

The State of Maryland receives approximately 13.48% of its tax revenues from the excise taxes on liquor and beer.

At the present time, there is no allocation of this revenue between the State and its local political sub-divisions.

The basic incidence of the taxes in question is an exaction on the privilege of manufacturing and selling. While it may be true that the tax is shifted to the consumer, it cannot be said that the tax is laid upon the privilege of consumption. Viewed in its proper setting, the privilege of manufacturing or selling commodities on a state-wide basis is protected by the State government. It seems only just, therefore, that the attendant responsibilities of the State in this connection should be paid for by a tax levied upon the exercise of the privilege which occasions these responsibilities.

Recommendation.

The Commission believes that the revenues produced by the excise tax on liquor and beer should remain with the State.

RECEIPTS FROM REGISTERS OF WILLS.

Direct and Collateral Inheritance Tax.

Article 81, Section 109 et seq. of the Annotated Code of Maryland imposes a direct and collateral inheritance tax on the clear value of any property having a taxable situs in this State which passes at the death of any resident or non-resident. The rate of tax is one per cent on property passing to direct descendants of a decedent and seven and one-half per cent on property passing to collateral descendants. These taxes are administered and collected by the office of the Register of Wills. To defray the expenses of his office, the Register is allowed to retain ten per cent of collections from the direct and collateral inheritance tax which is credited to the Register's account. The unexpended balance, if any, is returned to the State at the end of the year, as excess fees.

There is no allocation between the State and its local political sub-divisions with respect to the taxes received from the direct and collateral inheritance tax. The proceeds received by the State from these taxes are allocated (a) to service the Emergency Bond Issue of 1935 and (b) to the State general fund. For the past six years distributions have been as follows:

	General Fund		Annuity Bond Fund	
	Collateral Inheritance Tax	Direct Inheritance Tax	Collateral Inheritance Tax	Direct Inheritance Tax
1946	$762,215.54	$176,170.38	$610,641.33	$192,836.17
1945	605,360.32	194,671.63	680,718.22	170,223.26
1944	490,065.49	149,637.87	563,677.25	181,129.11
1943 (9 Months)	267,558.63	46,851.79	628,321.81	146,432.85
1942	634,546.33	123,389.85	625,392.30	152,657.70
1941	679,990.84	194,279.20	685,000.30	87,159.70

Recommendation.

The direct and collateral inheritance tax is an integral part of the general state-wide tax structure. Its yield is consistent, and can be increased, if necessary, with relative ease. It presently serves a portion of the State's bonded indebtedness. For these reasons the Commission recommends that there should be no allocation between the State and its local political sub-divisions with respect to the direct and collateral inheritance tax.

Maryland Estate Tax.

Article 62A of the Code provides for a Maryland Estate Tax. This tax is only applicable to estates in excess of $100,000, and is imposed to take advantage of the 80% credit allowed under the Basic Federal Estate Tax. The tax is certified by the office of the Register of Wills, but is administered and collected by the State Comptroller. All proceeds from the tax are paid into the State general fund, and no part thereof is allocated between the State and its local political sub-divisions.

Receipts into the general fund from the Maryland Estate Tax for the past six years have been as follows:

1946	$464,453.92
1945	256,095.18
1944	256,679.28
1943 (9 Months)	187,500.00
1942	200,000.00
1941	400,000.00

The Maryland Estate Tax is an integral part of the general state-wide tax structure. There is no reason why the revenues received therefrom should be subject to allocation between the State and its local political sub-divisions.

Recommendation.

The Commission recommends that there should be no allocation between the State and its local political sub-divisions with respect to the Maryland Estate Tax.

Tax On Commissions.

Section 104 of Article 81 of the Code imposes a tax on the commissions of executors or administrators (whether the commissions are waived or not) at a rate of one per cent on the first $20,000 of the estate and one-fifth of one per cent on the balance of the estate. The tax is paid to the Register of Wills, who is allowed to retain twenty-five per cent of collections to defray the costs of his office. As in the case of the direct and collateral inheritance tax, any excess tax on commissions retained by the Register which is not required for office expense is returned to the State general fund as excess fees.

The revenue produced by the State tax on commissions of executors and administrators is allocated to the State general fund, no part thereof being distributed between the State and its local political sub-divisions. For the past six years, the State has received the following amounts from the tax on commissions:

1946	$232,636.11
1945	227,459.88
1944	210,507.45
1943 (9 Months)	133,965.70
1942	182,413.61
1941	179,967.53

The tax on commissions is in the nature of an estate tax measured by the gross estate. It is an integral part of the State scheme of death taxes. No reason exists for allocating any part of the revenue received from this tax between the State and its local political sub-divisions.

Recommendation.

The Commission recommends that there should be no allocation between the State and its local political sub-divisions with respect to the tax on commissions of executors and administrators.

Excess Fees.

Section 28 of Article 36 of the Code (1943 Supp.) provides that the Register of Wills may charge certain fees for services rendered by their offices. In practice, the Register credits these fees, together with his allowable percentages of the direct and collateral inheritance tax and the tax on commissions (as discussed hereinabove) to his account. From this account, the Register pays his office expenses, and any balance remaining is paid into the State general fund.

At the present time, there is no allocation between the State and its local political sub-divisions with respect to the excess fees paid into the State general fund. As appears from the Comptroller's report, the State has received the following amounts as excess fees from the Register of Wills in the last six years:

1946	$151,620.79
1945	184,777.79
1944	145,111.68
1943 (9 Months)	105,067.30
1942	145,487.41
1941	161,650.87

RECOMMENDATION.

The Commission believes that no reason exists for allocating the excess fees from the office of the Register of Wills between the State and its local political sub-divisions. It is therefore recommended that no such allocation be made.

FINES, FEES AND FORFEITURES.

At present, all fines imposed for criminal offenses in violation of local ordinances are retained by the local political sub-divisions. The same is true with respect to fines imposed for State criminal offenses, with the exception of fines imposed for the violation of the State motor vehicle laws. These latter fines, after certain deductions are made, are paid by the various traffic and magistrate courts to the Commissioner of Motor Vehicles. The Commission recommends that no allocation should be made between the State and its local political sub-divisions with respect to the revenues produced by fines except those imposed for motor vehicle violation which are discussed elsewhere in this report.

There is one exception to the general statement made above. Fines for contempt are paid into the State general fund. As appears from the Comptroller's report, the State received $12.13 from miscellaneous fees and fines in the fiscal year ending June 30, 1945. The Commission makes no recommendation with respect to this item.

The clerks of the courts are entitled by Article 36, Section 12 (1943 Supp.), as amended by various miscellaneous provisions (Laws of Maryland, 1945), to charge fees for services rendered. Charges are also imposed for notary commissions. As in the case of the Register of Wills, the clerks of the courts credit the fees received to their account and pay, as far as possible, the expenses of their office from such funds. If a balance remains at the end of the year to the credit of the clerk, it is paid into the State general fund as excess fees.

The fees mentioned above are analogous in theory to similar payments made into the general fund by the Registers of Wills. Accordingly, the Commission recommends that there should be no allocation between the State and its local political sub-divisions with respect to revenues received from excess fees or notary commissions.

Section 148 of Article 81 (1943 Supp.) provides that every foreign building or homestead association, savings and loan association, credit union and charitable and benevolent institution shall pay to the State Tax Commission, at the time of filing its annual report, a filing fee of $10. Every other foreign corporation, subject to the jurisdiction of this State (except insurance companies and national banks) pays to the State Tax Commission, at the time of filing its annual report, a filing fee of $25. The proceeds of this tax is not allocated between the State and its local political sub-divisions, the entire amount thereof being general fund revenue. The amounts received by the State from this source in the past four years have been as follows:

1946	$52,280.59
1945	43,578.39
1944	43,848.93
1943 (9 Months)	41,575.00

The filing fee paid by foreign corporations is in lieu of a franchise tax on such corporations. As stated in another portion of this report, the annual franchise tax paid by ordinary business corporations is subject to allocation between the State and its local political sub-divisions. Be that as it may, the Commission believes that there should be no such allocation with respect to revenues received from filing fees paid by foreign corporations. The amount involved is small, and the added administrative burden which would be assumed if such an allocation were made would be large. In the opinion of the Commission, these considerations alone justify its conclusions.

FRANCHISE TAX ON DEPOSITS OF SAVINGS BANKS.

Section 94 of Article 81 of the Annotated Code provides that every mutual savings bank shall pay, annually, a franchise tax in the amount of one-fourth of one per cent of the total amount of deposits held by such banks. The tax is calculated by the State Tax Commission on reports supplied to it by the proper officers of the banks subject to tax. Thereafter the State Tax Commission apportions one-fourth of the tax to the State and three-fourths of the tax to the County or City of Baltimore in which the savings bank is situated. At the present time there are ten mutual savings banks doing business in Maryland of which nine are situated in the City of Baltimore.

The Commission recommends that the method of allocating the franchise tax on mutual savings banks which now obtains should be continued.

BONUS AND FRANCHISE TAXES OF DOMESTIC CORPORATIONS.

Bonus taxes paid by a domestic corporation for the privilege of incorporating under the Laws of the State of Maryland are paid to the State and are not shared in any way with any sub-divisions. One-half of the yearly franchise tax paid by domestic corporations is paid for the use of the State, and the other half is paid by the Treasurer to the county or City of Baltimore where the principal office of said corporation shall be situated, "but if such principal office be situated in a city (other than the City of Baltimore) said last mentioned one-half shall be equally divided between such city and the county in which the same is situated."

The Commission sees no reason to make any change in the existing system. A bonus tax is paid for the privilege of using the laws of the State. Many corporations are incorporated under the laws of the State of Maryland without ever actually doing business in this State. The sharing of the franchise taxes with the sub-divisions in the manner stated seems liberally to take into account the benefits which accrue to domestic corporations through the police and other protection afforded by the sub-division in which the principal office is located.

PUBLIC WELFARE.

The State of Maryland contributes in varying proportions to each category of the public assistance program. The Federal Government also contributes to each category except General Public Assistance. The following illustrates the present contribution by each unit:

	Local Political Sub-Division	State	Federal
Old Age Assistance	1/6th	2/6ths	3/6ths
Aid to Needy Blind	35%	15%	50%
Aid to Dependent Children	1¢ on tax rate	Balance of need	50%
General Public Assistance[1]	50%	50%	none
Administration	20%	80%	(Shares under a special formula.)

By a recent Act of Congress, certain more liberal contributions are being made by the Federal Government and these additional contributions to the State will undoubtedly be reflected in the State's contribution to the local units hereafter.

A number of states are financing parts of the public assistance program with no local money whatever. They seem to feel distribution can thus be made more equitably on the basis of need. They have also considered the many sources of revenue open to the states, while the local political subdivisions must rely for the most part on the property tax.

The following shows the states where no local funds are used for certain categories:

[1]Includes board of children in foster homes and supplementation of other categories.

States Where No Local Funds Were Used for

Old Age Assistance	Aid To Dependent Children	Aid To Needy Blind	General Public Assistance
Alaska	Alaska	Arizona	Alaska
Arizona	Arizona	Arkansas	Arizona
Arkansas	Arkansas	Connecticut	Dist. of Columbia
Colorado	Dist. of Columbia	Delaware	Hawaii
Connecticut	Florida	Dist. of Columbia	Pennsylvania
Delaware	Hawaii	Florida	
District of Columbia	Idaho	Hawaii	
Florida	Illinois	Idaho	
Hawaii	Kentucky	Illinois	
Idaho	Louisiana	Indiana	
Illinois	Mississippi	Kentucky	
Iowa	Missouri	Louisiana	
Kentucky	Nebraska	Maine	
Louisiana	New Hampshire	Massachusetts	
Maine	New Mexico	Michigan	
Michigan	Oklahoma	Minnesota	
Mississippi	Pennsylvania	Mississippi	
Missouri	Rhode Island	Missouri	
Nebraska	South Carolina	Nebraska	
New Mexico	South Dakota	New Hampshire	
Ohio	Texas	New Mexico	
Oklahoma	Washington	North Dakota	
Pennsylvania	West Virginia	Oklahoma	
Rhode Island		Pennsylvania	
South Carolina		Rhode Island	
South Dakota		South Carolina	
Texas		South Dakota	
Vermont		Texas	
Washington		Vermont	
West Virginia		Washington	
		West Virginia	
		Wyoming	

The Annual Report of the Federal Security Agency for 1945 contains this pertinent comment:

"... in most of the States that require localities to share in financing public assistance, the amount a locality puts up for matching determines how much it gets in State and Federal funds. Under these provisions, States with small economic resources, and poor localities within richer States, lack the funds to finance decent standards of assistance. Too often the amount of a payment to a needy old person or blind person or child depends on where he happens to live, not on what he actually needs. Need is usually more prevalent in the poorer communities, and even a highly inadequate assistance program may represent a greater fiscal burden for a poor community than a fairly adequate program represents in more prosperous places."

The State of Maryland, the counties and Baltimore City have had to levy substantial taxes to meet the heavy burden of this program. Table No. 17 shows the tax rate levied by the local units for this program. The variations are extreme. For example, for the fiscal year ended June 30, 1946, Baltimore County levied 3.42¢, while Baltimore City levied

Table No. 17

Tax Rate (1¢ per $100 Assessable Property) Represented by Expenditures of Local Funds for Assistance and Administration.

	FISCAL YEAR ENDED				
Local Unit	9/30/38	9/30/40	9/30/42	6/30/44	6/30/46
Allegany	13.21¢	9.77¢	9.67¢	11.91¢	13.00¢
Anne Arundel	8.96	6.16	6.32	6.04	5.80
Baltimore	5.20	3.24	2.79	2.34	3.42
Calvert	12.41	12.26	11.86	11.24	9.68
Caroline	10.96	12.13	11.73	11.83	12.15
Carroll	5.94	5.74	5.41	5.22	5.62
Cecil	7.18	7.99	6.75	7.42	6.86
Charles	11.47	9.53	9.19	9.72	11.78
Dorchester	12.12	11.90	12.03	12.95	12.49
Frederick	7.36	6.28	5.58	5.71	6.16
Garrett	18.61	15.48	20.46	19.74	22.12
Harford	4.62	4.92	4.43	3.91	4.50
Howard	7.84	7.19	7.31	6.08	6.88
Kent	7.96	6.94	6.59	5.51	5.34
Montgomery	5.02	3.54	4.63	4.64	5.11
Prince George's	8.48	6.69	7.48	7.38	8.43
Queen Anne's	7.91	8.21	7.88	7.69	8.26
St. Mary's	10.63	10.42	10.77	11.38	10.55
Somerset	13.95	16.93	16.21	18.70	17.56
Talbot	7.36	7.85	7.36	7.02	6.92
Washington	9.47	9.70	8.13	6.59	7.36
Wicomico	18.27	15.09	13.13	12.24	12.73
Worcester	10.79	9.43	11.88	11.47	11.22
Baltimore City	19.80	13.12	10.25	9.91	11.70

Note: Private funds included above.

Where local and State fiscal years do not coincide, the local taxable basis has been pro rated to arrive at the tax rate.

State matching for G. P. A. started October 1, 1939.

11.70¢. Garrett County levied the highest tax, 22.12¢. These variations, on the local level, illustrate forcibly the problem which is an ever-changing one. All too frequently, funds flow into a local community in proportion to the amount raised, rather than on the basis of actual need.

The grants vary according to residence. In May, 1946, the average grant in the State to recipients of Old Age Assistance was $28.33. The low was St. Mary's County, $15.38. The high was Baltimore City, $34.69.

The average grant per child under Aid to Dependent Children was $13.05. The low was Calvert County, $10.71. The high was Allegheny County, $13.42.

The total expenditures by the State, the counties and Baltimore City are tremendous.

(See Tables Nos. 18 and 19.)

More and more, the trend throughout the country is toward placing the burden on the states and Federal Government. In the event of a major economic crisis the shock of rapidly rising relief costs will fall to a greater extent on those local units least able to meet the increased burden.

Various proposals have been made from time to time. Should the program, or parts of it, be financed without local assistance? In other words, should the entire burden fall only on the State and Federal Government? Should local contributions be based on need rather than on ability to pay? Or should the local units make their maximum contribution and the balance of the cost of the program fall on the State and Federal Government?

As pointed out elsewhere in this report, comprehensive data in detailed form is lacking to show what share of the whole cost of government each local unit bears. When the recommendations of this Commission on the subject of uniform accounting and changes in fiscal years have been in effect for several years, we shall then have the whole picture before us, so that a real start can be made toward a solution of the problem on a permanent basis.

Table No. 18

Expenditures of Local Funds for Assistance and Administration.

Local Unit	FISCAL YEAR ENDED Sept. 30, 1938	Sept. 30, 1940	Sept. 30, 1942	June 30, 1944	June 30, 1946
Allegany	$ 104,385.19	$ 82,920.90	$ 90,630.39	$ 113,678.20	$ 123,308.25
Anne Arundel	48,529.98	35,314.77	38,308.61	39,004.67	40,346.03
Baltimore	97,415.52	72,841.95	76,656.89	72,077.21	121,957.15
Calvert	7,544.09	7,674.72	8,040.83	7,506.91	7,033.71
Caroline	16,027.85	17,957.33	17,908.30	18,643.06	19,889.78
Carroll	23,070.71	22,380.02	22,611.84	22,526.38	25,088.06
Cecil	28,090.09	31,670.21	29,021.82	31,924.63	33,342.22
Charles	11,962.13	10,621.41	10,764.23	11,415.99	14,262.84
Dorchester	29,790.76	29,907.22	29,905.82	32,065.65	33,224.33
Frederick	48,352.39	41,706.83	38,365.60	40,397.55	44,500.02
Garrett	36,473.93	30,781.89	41,310.00	40,477.23	43,438.71
Harford	24,493.40	26,081.40	25,809.54	25,500.47	32,078.92
Howard	14,320.72	13,538.82	14,209.25	12,651.98	15,005.34
Kent	13,047.68	11,757.27	11,691.86	9,940.32	9,882.09
Montgomery	53,274.48	39,916.77	68,331.67	72,118.82	92,864.76
Prince George's	57,947.43	51,870.52	69,408.98	75,278.54	95,307.45
Queen Anne's	13,163.75	13,542.62	14,266.71	13,749.22	14,783.95
St. Mary's	9,326.80	9,681.04	10,160.37	11,105.21	10,894.29
Somerset	16,939.96	20,175.51	21,328.82	23,950.08	22,866.42
Talbot	15,637.80	17,267.41	17,492.60	16,152.39	15,953.23
Washington	72,660.54	77,145.42	74,311.93	64,470.16	74,969.28
Wicomico	54,440.96	47,930.72	43,738.23	44,686.60	50,218.94
Worcester	22,104.17	19,788.75	25,556.09	24,738.34	25,716.60
Total Counties	$ 819,000.33	$ 732,473.50	$ 799,830.39	$ 824,059.61	$ 966,932.37
Baltimore City	2,339,009.44	1,621,951.10	1,320,237.44	1,198,375.43	1,570,755.67
Total	$ 3,158,009.77	$ 2,354,424.60	$ 2,120,067.83	$ 2,022,435.04	$ 2,537,688.04

Table No. 19

SUMMARY OF EXPENDITURES FOR ALL WELFARE PROGRAMS FOR THE FISCAL YEAR ENDED JUNE 30, 1946.

	Total
Allegany	$ 510,892.32
Anne Arundel	180,786.04
Baltimore	342,882.97
Calvert	30,234.97
Caroline	107,136.69
Carroll	103,732.93
Cecil	138,205.04
Charles	77,672.24
Dorchester	158,125.27
Frederick	230,396.03
Garrett	213,224.00
Harford	117,840.35
Howard	62,005.20
Kent	41,146.85
Montgomery	284,793.96
Prince George's	337,887.16
Queen Anne's	71,429.88
St. Mary's	64,374.26
Somerset	134,932.61
Talbot	77,754.45
Washington	347,631.48
Wicomico	236,907.35
Worcester	122,012.16
Total Counties	$ 3,992,004.21
City of Baltimore	5,350,745.98
Total Local Units	$ 9,342,750.19
State Department	134,042.35
Institutions (14 State, 1 City)	23,533.50
GRAND TOTAL	$ 9,500,326.04
SOURCE OF FUNDS	
Federal	$ 3,062,762.10
State	3,862,983.10
Local—Public	2,537,688.04
" —Private	36,892.80
TOTAL	$ 9,500,326.04

The recommendations for allocations of revenue we have made in this report will go far toward relieving the counties and Baltimore City of excessive burdens of taxation.

We recommend no change for the present in the allocation of the cost of the public assistance program between the State and the local political sub-divisions. However, this problem should be carefully reviewed in a few years, when the statistical data referred to should be available, and our other recommendations have been in effect for a reasonable time.

EFFECT OF RECOMMENDATIONS ON STATE FINANCES.

Because of the inevitable uncertainties as to future economic conditions and extent of revenue, no exact estimate can be made as to what would be the effect upon the State's finances if all of the Commission's recommendations were enacted into law. The Commission, therefore, can only project the effect of its recommendations upon the actual allocations to the political sub-divisions made during the fiscal year ended June 30, 1946. In so doing, it must be kept in mind that the two school incentive funds could not in any case go into effect until the fiscal year beginning July 1, 1947. However, for purposes of this calculation those two incentive funds are included in the following tables and are based on the estimated school population for the fiscal year beginning July 1, 1947.

Table No. 20 shows that, if all of the Commission's recommendations, including those as to the two school incentive funds, had been in effect during the fiscal year ended June 30, 1946, the political sub-divisions would have received $12,799,905.86 more of State revenues than they did receive. Of this amount, $10,893,510.73 would have come from the State general fund, $178,988.11 from highway revenues, $1,483,415.17 from taxes on the mile race tracks, and $243,991.85 from taxes on the half mile tracks. It should be kept in mind, however, as to the racing figures, that the fiscal year ended June 30, 1946 was an unusual year for racing with betting reaching unprecedented proportions.

Table No. 21 shows how this additional amount of $12,799,905.86 would have been allocated to Baltimore City, the counties and incorporated cities and towns, and the Maryland State Fair Board, with a further itemization as to the sources of the additional allocations.

As is shown in Table No. 21, the counties and incorporated cities and towns, other than Baltimore City, would have received a total of $6,239,964.24 more than they actually did

Table No. 20

Summary of Estimated Annual Requirements to Effect Recommendations Based on Fiscal Year Ended June 30, 1946.[1]

	State General Fund	State Roads Commission	One Mile Race Tracks	Half Mile Race Tracks	Total
Basic Program:					
Revenue and Allocation Revisions:					
Resident Individual Income Tax	$ 2,105,344.20				$ 2,105,344.20
One Mile Race Tracks	1,702,719.71		$ 1,483,415.17		3,186,134.88
Half Mile Race Tracks	13,006.39*			$ 243,991.85	230,985.46
Admission Tax	249,045.64				249,045.64
Licenses—"Local Business"	1,114,682.88				1,114,682.88
Recordation Tax	549,869.69				549,869.69
Gasoline Tax—½¢		$ 148,384.22			148,384.22
Motor Vehicle Fines		30,603.89			30,603.89
Public School State Aid	2,275,531.00				2,275,531.00
Total Basic Program	$ 7,984,186.73	$ 178,988.11	$ 1,483,415.17	$ 243,991.85	$ 9,890,581.86
Public School Maximum State Incentive Program	2,909,324.00				2,909,324.00
Total	$ 10,893,510.73	$ 178,988.11	$ 1,483,415.17	$ 243,991.85	$ 12,799,905.86

* Indicates Red

[1] The two school incentive funds are based on the fiscal year ending June 30, 1948.

Table No. 21

Summary of Estimated Annual Distributions Proposed in Recommendations Based on Fiscal Year Ended June 30, 1946.[1]

	Baltimore City	Counties and Towns	Maryland State Fair Board	Total
Basic Program:				
Revenue, and Allocation Revisions:				
Resident Individual Income Tax	$ 1,197,975.26	$ 907,368.94		$ 2,105,344.20
One Mile Race Tracks	1,502,933.42	1,683,201.46		3,186,134.88
Half Mile Race Tracks	54,479.14	61,013.59	$ 115,492.73	230,985.46
Admission Tax	158,168.19	90,877.45		249,045.64
Licenses—"Local Business"	601,343.97	513,338.91		1,114,682.88
Recordation Tax	267,809.80	282,059.89		549,869.69
Gasoline Tax—½¢	148,384.22			148,384.22
Motor Vehicle Fines	30,603.89			30,603.89
Public School State Aid	1,815,877.00	459,654.00		2,275,531.00
Total Basic Program	$ 5,777,574.89	$ 3,997,514.24	$ 115,492.73	$ 9,890,581.86
Public School Maximum State Incentive Program	666,874.00	2,242,450.00		2,909,324.00
Total	$ 6,444,448.89	$ 6,239,964.24	$ 115,492.73	$ 12,799,905.86

[1] The two school incentive funds are based on the fiscal year ending June 30, 1948.

receive during that year. This figure includes the estimated distributions under the two school incentive funds at their maximum of $2,242,450.00.

As is shown in Table No. 21, Baltimore City would have received a total of $6,444,448.89 more than it actually did receive during that year. This figure includes the estimated distributions under the two school incentive funds at their maximum of $666,874.00.

The Maryland State Fair Board would have received from racing revenues the sum of $115,492.73.

The question naturally arises as to what effect the Commission's recommendations would have on the State's fiscal strength. As the Commission has already pointed out, it made the entire study bearing in mind that the State must continue to remain strong financially, not only in good times but in periods of depression as well.

At the end of the fiscal year 1944, the State had a surplus of $8,961,000.87. At the end of the fiscal year 1945 the surplus was $13,416,025.23. For the fiscal year ended June 30, 1946, the surplus was $11,932,469.50. However, several factors must be taken into consideration in discussing the State's surplus. In the first place, the State requires a working capital fund of $2,000,000.00. In addition, the surplus if once used is not a recurring item, although many of the factors which have made for surpluses in the last few years are still operating. In 1946 the State transferred to the Post War Construction Fund the sum of $6,200,000.00 and still had the surplus above mentioned.

However, we believe in discussing the impact on the State that it is better to examine the State's fiscal position from the point of view of general fund revenues and expenditures, rather than surplus. Revenues for the 1946 fiscal year were $35,791,690.66; the expenditures, excluding the provisions for post war construction, were $31,075,246.39. Therefore the excess of receipts over expenditures was $4,716,444.27. This sum clearly could have been utilized toward the allocations which we have recommended.

If the income tax had been in effect for the last fiscal year at the full rate of 5% for investment income and 2% for ordinary income, rather than at the half rates, after the recommended allocations to the sub-divisions, the State would have had additional funds amounting to $3,782,146.00.

In addition, the emergency relief and unemployment loan of 1933 will be completely amortized in 1949, so that shortly after the time the full impact of the incentive funds is felt the State will have reduced its debt service requirements for that loan by $1,100,000.00 annually.

As to the two school incentive programs we have no way of knowing to what extent the counties will participate; whether they will levy the minimum tax of one cent for each program or the maximum tax of five cents for each program, or some figure between.

The State of Maryland faces increased costs, additional budgetary requirements, increased salaries, expansions in the medical and other programs, and many other projects which have already been approved by the Legislature and go into effect next year.

The political sub-divisions, with far less taxing resources than the State, face the same need caused by the increased cost of government. The political sub-divisions are also faced with the increased expenses which will be caused by the State's expanded educational program and greatly increased costs for the public welfare program.

The State and its local units together must meet the inevitable burdens facing them. The State of Maryland has many and varied sources of revenue. Some of the counties and Baltimore City cannot long continue under their present staggering burden of taxation on real estate, even apart from the increased expenditures which confront them.

It is our opinion that the State, with its vastly greater resources, should redress the existing inequalities and inequities and squarely meet its fair share of the burden.

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS.

The recommendations of the Commission are offered to correct what seem to be clear inequities in the present situation. The extent of the proposals has been set to meet only what are believed to be requirements of the near term future. For reasons which appear in detail in this report, the Commission has made the following affirmative recommendations:

I.

Every political sub-division in the State should be required by State law to adopt a uniform system of accounts. A commission should be created to set up such a system and to carry it into effect. Every sub-division should be required to adopt either the calendar year or July 1st to June 30th as its fiscal year.

II.

The Commission recommends annual sessions of the General Assembly to consider the State budget on a yearly basis.

III.

A fiscal research bureau should be set up within the State Tax Commission to study constantly the revenues and expenditures of the political sub-divisions and their fiscal relationships with the State.

IV.

The political sub-divisions, uniformly, should be given a limited first call on the income tax paid by their individual residents to the State, expressed in terms of percentage of income rather than percentage of tax. This percentage of income should be, for the near term future, 1½% of investment income and .625% of ordinary income. Above these amounts, the State can increase or decrease the rates of the income tax solely from the point of view of State needs.

V.

As to racing, the Commission recommends:

1. The tax on net revenue on all tracks should be abolished.

2. The daily license fees on mile tracks should be reduced to $1,000. per day.

3. The tax on the pari-mutuel pool for all tracks should be increased to 4%, the total "take" to remain as at present at 10%.

4. Breakage from the mile tracks should continue to go to the State, but should be retained by the half mile tracks.

5. All tax revenue received from the mile tracks should be allocated one-half to the State, and the remaining one-half to the counties, incorporated towns and Baltimore City on the basis of population according to the latest available Federal census.

6. Tax revenues from the half mile tracks should be allocated one-half to the State, one-fourth to the counties, incorporated towns and Baltimore City, in the same manner as revenues from the mile tracks, and one-fourth to the Maryland State Fair Board for the promotion of State and county agricultural fairs and exhibits.

7. The additional license fee of $3,000. daily paid by Pimlico and allocated to Baltimore County should be abolished.

VI.

With respect to highway user taxes, the Commission recommends:

1. If the General Assembly in the near future authorizes issuance of additional bonds of the State Roads Commission, the entire cost of servicing such additional debt should be financed entirely by increases in the motor vehicle fees or in the gasoline tax, or both.

2. Baltimore's participation in the highway user funds should be made a uniform 30%.

3. The distribution of the lateral roads tax between the counties should be made on the basis which the mileage of county roads in each county bears to the total mileage of county roads in the State. In making this allocation, recognized urban streets should be added to county mileage.

VII.

All funds for education should be allocated to the counties and Baltimore City through two funds, (1) $400. per classroom unit per year, and (2) $20. per pupil in attendance per year. The equalization fund should be continued and two incentive funds should be established on a matching basis, one for increasing salaries of school teachers, and the other to provide better school facilities.

VIII.

The net proceeds of the tax on admissions should be allocated to the political sub-division in which the tax is collected.

IX.

The net proceeds received from all licenses local in nature should be allocated to the political sub-division in which the licensed activity is conducted.

X.

The proceeds of the tax on the recordation of instruments relating to real or personal property, with one minor exception, should be paid to the sub-division in which the tax is collected.

If all of the affirmative recommendations made by the Commission had been in effect for the fiscal year ended June 30, 1946, the counties, incorporated towns and Baltimore City would have received during that year from all sources a total of $12,799,905.86 more than they did receive. Of this additional amount the counties, incorporated towns and cities, other than Baltimore City, would have received in addition to what they did receive a total of $6,239,964.24; and Baltimore City would have received in addition to what it did receive a total of $6,444,448.89.

The State must continue to remain strong financially, not only in good times, but in periods of depression as well. In the opinion of the Commission, its recommendations can be put into effect without prejudice to that principle.

Every unit of government, State and local, faces rising costs, additional budgetary requirements, increased salaries, and expansions in governmental functions. The State and local units together must meet the inevitable burdens facing them. The State of Maryland has many and varied sources of revenue. Some of the counties and Baltimore City cannot long continue under their present staggering burden of taxation on real estate, even apart from the increased expenditures which confront them.

It is the opinion of the Commission that the State, with its vastly greater resources, should redress the existing inequalities and inequities and squarely meet its fair share of the burden.

Respectfully submitted,

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